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FINANCIAL SERVICES REVIEW

From the Editor

This issue contains **Issue 2 of Volume 26** of *Financial Services Review* (*FSR*). I would like to thank the board and members of the Academy of Financial Services for their continued support. I continue to work in broadening the scope of articles, while still focusing on individual financial management and personal financial planning. I encourage authors to reach out when discussing implications of their findings in a more comprehensive way. As such, all articles in the Journal more appropriately relate to financial planning issues.

The lead article "Retirement Income Strategies Designed in an Expected Utility Framework" is authored by Mark J. Warshawsky at ReLIAS LLC. In this paper, the author evaluates various classes of retirement income strategies and tests their robustness in an expected utility framework. He finds that fixed percentage systematic withdrawals from an investment portfolio combined with laddered purchases of immediate life annuities stand out as a superior strategy for retired defined contribution plan participants and IRA holders, yielding better outcomes than alternatives, including longevity insurance.

The second article "The financial literacy of Generation Y and the influence that personality traits have on financial knowledge: Evidence from Canada" is authored by Robert N. Killins at Seneca College of Applied Arts and Technology. In this paper, the author examines the financial literacy of Generation Y and explores how personality traits influence individual's financial knowledge. He uses a financial literacy survey and multiple areas of financial literacy are measured (investments, budgeting, economics, risk management, and retirement planning) along with the well-known Big Five personality traits. The author finds that the Generation Y cohort is more knowledgeable in budgeting and risk management segments of financial literacy, but they lack knowledge in retirement planning. Additionally, he finds that extraversion and conscientiousness are both important personality traits when regressed on individuals overall financial literacy levels.

The third article, "Active Asset Allocation for Retirement Funds using the Fed Model" is coauthored by John M. Clinebell at University of Northern Colorado, Douglas R. Kahl at University of Akron, and Jerry L. Stevens at University of Richmond. Active asset allocation, also known as market timing, is controversial but potentially effective for individual investors and financial advisors. This study addresses many of the concerns related to market timing studies. The authors control for transaction costs and tax effects by focusing on funds available for retirement accounts within a Vanguard fund family which allows for costless monthly transfers. They use a "risk on" or "risk off" approach rather than experiment with arbitrary cutoff rules for switching funds. They test the time series properties of the Fed model to build a prediction model and then apply it over a recent five-year hold-out of period. Their findings show that the switching portfolio offers attractive performance compared to either of the Vanguard funds, especially with respect to enhancing upside to downside risk ratios.

The fourth article, "Bond Laddering and Bond Indexing: An Empirical Comparison" is coauthored by C. Sherman Cheung and Peter Miu at McMaster University. Bond laddering and bond indexing have been widely accepted approaches to bond investing among retail investors, although bond laddering has virtually been ignored in the academic literature. Both approaches are passive strategies with do not attempt to beat the market. Open questions are: which approach should an investor favor, is there any room for both to be used at the same time, and what is the appropriate term to maturity for the ladder. The authors investigate the relative attractiveness of the two approaches and identify conditions that favor one over the other. Further, the authors examine conditions under which both instruments should be held within an optimal portfolio and identify situations in which a longer-term ladder is more appropriate than a shorter-term ladder.

The final article, "The Impact of the Capitalization of Operating Leases: A Guide for Individual Investors" is coauthored by Jack Trifts at Bryant University and Gary E. Porter at Northeastern University. In this paper, the authors provide an explanation of the new FASB standard requiring firms to move their off-balance sheet operating leases onto the balance sheet beginning in 2019 and discuss how the new rule might affect the stock and bond values. Despite large increases in on-balance sheet liabilities for some industries, the authors caution investors not to anticipate changes in their stock or bond valuations resulting from this change. Because asset values change in response to new information, and information regarding changes in total assets and debt ratios is currently available in the notes to financial statements and from data providers, such as Bloomberg, this information is already incorporated in forecast asset values developed by professionals.

Thanks to those who make the journal possible, especially the referees and contributing authors. Over the past year, the following reviewers provided excellent reviews of the articles you enjoyed within the pages of Financial Services Review. I would like to send a special thank you to the many reviewers that have significantly contributed to the quality of our journal by providing timely and thorough reviews of the submissions to our journal.

Please consider submission to the Financial Services Review and rely on the style information provided to ease readability and streamline the review process. The Journal welcomes articles over the range of areas that comprise personal financial planning. While FSR articles are certainly diverse in terms of topic, data, and method, they are focused in terms of motivation. FSR exists to produce research that addresses issues that matter to individuals. I remain committed to the goal of making Financial Services Review the best academic journal in individual financial management and personal financial planning.

Best regards,
Stuart Michelson
Editor *Financial Services Review*