Financial Services Review 24 (2015) v–vi

FINANCIAL SERVICES REVIEW

From the Editor

This issue contains **Issue 3 of Volume 24** 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 "How Risky is Your Retirement Income Risk Model?" is coauthored by Patrick J. Collins at University of San Francisco, Huy Lam at Schultz Collins, Inc., and Josh Stampfli. This article provides a review of various retirement income modeling approaches including historical back testing, Monte Carlo simulations, and other more advanced risk modeling techniques. The authors show that implausible assumptions underlying common risk models may mislead investors concerning the risk and return expectations of their retirement investment strategies. The authors demonstrate how an over-simplified model may distort the risks facing retired investors.

The second article "The Impact of Superannuation Fund Choice Legislation and the Global Financial Crisis on Australian Retail Fund Flows" is coauthored by Rakesh Gupta at Griffith University and Thadavillil Jithendranathan at the University of St. Thomas. The authors examine the extent to which cash flows into the Australian superannuation funds are affected by the past performance of the fund, riskiness of the fund, choice of superannuation fund legislation, and the global financial crisis. They find that both retail and wholesale investors base their investment decision on the past performance of the funds and that there is very little evidence that the riskiness of fund returns has a significant effect on the flow of funds. The authors also show that legislation has resulted in more inflows into managed funds and there are higher inflows into managed funds and equity funds since the period of the global financial crisis.

The third article, "Does it Pay to Diversify? U.S. vs. International ETFs" is coauthored by Srinidhi Kanuri at the University of Southern Mississippi and Robert W. McLeod at the University of Alabama. This article evaluates the performance and diversification benefits of international ETFs for U.S. investors during and after the recent financial crisis. The author's show that U.S. ETFs outperform all categories of international ETFs during the period January 2008–June 2013. The ETFs have higher average monthly returns, lower risk, higher risk-adjusted performance and the highest cumulative returns over the entire period. The authors also find that U.S. ETFs have the lowest tracking error during the entire period.

Finding that most of these ETFs passively track the benchmark and do not manage for positive alpha, the authors indicate that international ETFs are highly dependent on major U.S. indices during the period of the analysis, and therefore, offered limited diversification benefits for U.S. investors.

The fourth article, “Return-Enhancing Strategies with International ETFs: Exploiting the Turn-of-the-Month Effect” is coauthored by Haiwei Chen at University of Alaska Fairbanks, Sang Heon Shin at Alabama State University, and Xu Sun at University of Texas–Pan American. In this article, the authors show that the average return over the four-day period surrounding the turn of the month is significantly positive for eight out of nine international ETFs studied. The strategy of buying-and-holding an ETF during TOM period and switching to holding T-bills during non-TOM period produces significantly positive monthly average returns. This ETF-T-bill switching strategy has the lowest risk, highest Sharpe ratio, and highest Sortino ratio than the traditional strategy of buying-and-holding either an index fund or an ETF. Investors that pursue this strategy can expect to generate a terminal value twice as large as the strategy of buying-and-holding an ETF.

The final article, “The Performance and Market Timing Ability of Chinese Mutual Funds” is coauthored by Wei He at Mississippi State University, Bolong Cao at Ohio University, and H. Kent Baker at the American University. The authors examine the performance, fund flows, and market timing ability of actively managed Chinese stock mutual funds. Based on daily return data and several four-factor models, only about 7.5% of these funds have statistically significant risk-adjusted abnormal returns and even fewer demonstrate market timing ability. After controlling for fund size, management fees, average amount and volatility of fund flows, older funds show higher Sharpe ratios. Their results also shows that the volatility of fund flows has an inverted-U shape relationship with fund performance. The results provide an indication that investors should focus on index funds in China unless they have solid evidence that the active managers under consideration have the ability to consistently generate excess risk-adjusted returns.

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. Thanks to those who make the journal possible, especially the referees and contributing authors.

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*