From the Editor

Many people date the origins of modern finance theory to the publication of Harry Markowitz's 1952 article, "Portfolio Selection," in the *Journal of Finance*. It is therefore appropriate to begin our new journal with an article by that same author who shared the 1990 Nobel Prize in Economics for his work.

Professor Markowitz seeks to apply portfolio selection theory to the individual investor. He reveals that his original work was focused on an investment company, a much simpler entity than an individual or family. In dealing with individual financial management, one must recognize the inherent illiquidity of important assets, such as the home and its furnishings. Furthermore, given the random nature of events that might affect a family, a single plan must give way to adaptive decision rules. Professor Markowitz concludes by suggesting ways in which the "game of life" may be simulated, and encourages the *Financial Services Review* to "publish research with various approaches to various aspects of its topic area." He concludes by saying that "Such pluralism is desirable in research, as it is in politics and the marketplace."

In starting this, the first scholarly journal to focus on individual financial management, the Academy of Financial Services formalizes the creation of a new subdiscipline of finance. However, unlike other subdisciplines—such as investments, banking, real estate, and insurance—the scope of individual financial management focuses not on instruments and institutions but on the application and effect of all aspects of finance on the individual. The "pluralism" described by Professor Markowitz encompasses both theoretical and empirical studies which seek to explain individual financial behavior and present ways in which the welfare of families and individuals may be improved.

This inaugural issue reflects the pluralistic approach of both the journal and the new field, and serves as a model for subsequent issues. The second article, by Professors Tom Potts and William Reichenstein, asks the rather practical question whether it is better to tax shelter assets designated for retirement in a pension account or maintain them outside of such a shelter. Surprisingly, the answer depends on whether the owner of those assets intends to manage the nonpension portion actively or passively.

A somewhat related issue is considered empirically in the next article, by Professors Robert Kleiman and Anandi Sahu, in which they ask whether individual investors are better off putting their funds in equity portfolios of life insurance companies or in mutual funds, and conclude that there is very little difference in risk-adjusted performance. This implies that variable annuity contracts offered by life insurance companies may offer an advantage over mutual funds to some investors by deferring taxes.

The fourth article, by Professor Neil Murphy, examines household financial behavior in the payments area. His article uses the Survey of Currency and Transaction Account Usage conducted by the Federal Reserve System to find out why increased use of automated teller machines has not reduced the number of checks written by consumers. He concludes that checks are written for necessary third party transactions, while ATMs are merely a convenient way to obtain cash from one's bank. Therefore, the only effective method of reducing the number of checks written by consumers is the imposition of a marginal cost for each check written.

Next, Professor Peter Chinloy examines the extent to which real estate income influences the location decisions of individuals. Since real estate constitutes more than 50% of the personal (non-human) wealth of Americans and since, as Professor Markowitz points out (above), it is rather illiquid, expected returns to the real estate component of the portfolio should be an important component of job relocation decisions. His empirical results support this assertion.

The last article is a review piece by Professor Larry Cox that raises some major questions relating to disability insurance and assesses the adequacy with which each is addressed. As we develop the field of individual financial management, it is important to review what has already been done and what still needs to be done. For that reason, we plan to run a detailed review article as a regular feature, and encourage scholars to contact us with subjects.

Given the diverse nature of the fields which constitute individual financial management, it is difficult to stay abreast of developments which might affect it. To help readers with this problem, our review editor, Professor Phyllis Myers, presents abstracts of articles relating to individual financial management that have appeared in other journals. This, also, will be a regular, ongoing feature of the *Financial Services Review*.

—Lewis Mandell