From the Editor

Financial planning for the family or individual is far more difficult than financial planning for the corporation, in large part because the former lacks anything resembling a viable optimization criterion. Those of us interested in individual financial management cannot seek simply to maximize shareholder wealth. This is partly because the "shareholders" of a family are simultaneously its time-constrained consumers and producers, partly because there is no legal or viable market for a family's wealth, and partly because inter-family agency problems make it difficult to identify the ultimate shareholder.

Economists suggest that we broaden the optimization criterion to that of utility maximization. While theoretically elegant, this solution lacks practicality. Ignoring the agency problem of how family members trade off their individual utilities in favor of maximizing the family's utility, we are still faced with complex problems including the allocation of wealth to present consumption or future consumption through compatible investment vehicles.

In our opening article, "Personal Financial Planning and the Allocation of Disposable Wealth," by Amy and Robert Puelz, the authors state that "In the personal financial planning literature, however, there is no decision model that fully integrates an individual's subjective valuation of all objectives and constraints relevant to this time dependent wealth allocation problem." Since conflicting goals cannot be simultaneously achieved, the authors propose the "satisficing" of multiple goals, a solution first proposed by Herbert Simon in 1955. They achieve this through two decision-making techniques, goal programming and the analytical hierarchy process.

The second article addresses a more practical and immediate problem. Small investors are susceptible to "get rich quick" investment schemes based upon alleged anomalies in otherwise reasonably efficient investment markets. One such anomaly suggests that it only pays to be in the market in January. In their article entitled "Should the Small Investor be Out of the Market Outside of January?," Steven Mann and Donald Solberg conclude that evidence supporting the January anomaly is not strong and that the investor should be wary of the claim.

In recent years, the proportion of consumers leasing cars has increased dramatically, extending the lease versus buy decision from the corporation to the household. Some have attributed this new development to TRA86 which phased out the tax deductibility of consumer automobile loans not secured by home equity. In their article entitled "Effective Credit Costs in Retail Financial Markets: Leasing vs. Borrowing," D. Anthony Plath and Bennie H. Nunnally use empirical analysis to come up with two very significant results. First, neither form of financing is superior. In about half the cases, leasing is less expensive and in the other half, borrowing proves cheaper. Second, the cost of financing is substantially understated by both lenders and leasers, particularly the latter who are not bound by the uniform reporting standards of the Truth-in-Lending Act.

The fourth article, "Comparing Mortgages with Different Payment Frequencies," by Arefaine Yohannes is a behavioral study of consumers designed to find out who uses the biweekly payment mortgage. The use of this option tends to reduce the term of a 30 year mortgage by about a third. Not surprisingly, he finds through logistic regression that frequency of payday is a very important determinant with those who are paid weekly or biweekly the more likely to utilize this innovation. He also finds that utilization varies as well with level of education, the better educated more willing to avail themselves of savings offered by the biweekly plan.

An interesting new approach to estate planning is taken by Ronald Crabb in his article "Probabilistic Estate Planning." This article challenges the traditional approach to estate planning which uses life expectancy to calculate likely estate value and insurance needs. Since few people die at the time of their actuarially-predicted demise, there is a range of estate values and strategies implied. Using Markowitz's mean variance portfolio approach, estate planning comes down to a risk-return tradeoff which is determined by the risk preferences of the decision maker.

Our review article, "International Investing for the Individual," by Jeff Madura and Tom O'Brien, examines the rapidly expanding world of international investing and asks how individual investors may best participate. Three key issues are examined: the benefits of international diversification, the key problem of currency exposure, and the effective means of achieving international diversification.

This issue of *Financial Services Review* concludes with abstracts of articles on individual financial management, edited by Phyllis Myers.

I am pleased to report that the flow of high quality submissions keeps increasing. In order to attract the best possible articles relating to individual financial management, we have established a sixty day review turnaround as our goal for articles received between September and the beginning of April. Turnaround slows during the summer months as reviewers become somewhat more scarce.

We are seeking review articles for our forthcoming issues. Readers who are interested in reading or writing about a particular topic should contact me.

—Lewis Mandell