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Abstracts of Articles on Individual Financial Management

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CONSUMPTION-SAVINGS BEHAVIOR

Habit Dynamics and Wealth Accumulation Fluctuations, John G. Powell (University of Otago, Dunedin, New Zealand).

This paper explores the possibility that consumption habits are directly affected by investors' wealth histories as unanticipated wealth losses alter perceived financial well-being and force investors to re-evaluate their minimum consumption habit requirements. The response of consumption habits to unexpected investment return changes is assumed to depend upon individual differences in need for cognition and tendency towards risk taking, and these differences lead to sharply contrasting investment strategies which alter the wealth accumulation process. Investors who do not monitor their consumption habits during good times find that they must quickly move out of risky assets during downturns in order to ensure that they can continue to meet their minimum consumption needs. This dynamic trading portfolio insurance behavior is inherently risky in an economic sense, so these myopic investors must compensate by reducing the risk exposures they choose, thus resulting in a lower rate of wealth accumulation and a utility loss. Investors are better off if they cut back habitual consumption during recessions in order to preserve financial well-being and maintain wealth accumulation rates. *Journal of Economic Psychology*, June 1993, 14(2): 267–283. (Reprinted with permission of North-Holland Publishing Company.)

Patterns of Overspending in U.S. Households, by MiKyeong Bae, Sherman Hanna, and Suzanne Lindamood

An original analysis of the BLS Consumer Expenditure Survey shows that almost 40% of U.S. households spent more than their income in 1990. Multivariate logistic regression indicates that income level is the most important factor related to whether a household overspends. More educated consumers are likely to overspend than are less educated consumers, when income and other factors are controlled. *Financial Counseling and Planning*, 1993, 4: 11–30. (Reprinted with permission of *Financial Counseling and Planning*.)

Women, Men, and Money Styles, by Melvin Prince (Fordham University).

The character of gender differences in money styles is examined. On average, money style item scores for young adult males and females are found to be consistently disparate.

Males and females are both likely to see money as closely linked with esteem and power, but males are more prone to feel involved and competent in money handling, and take risks to amass wealth. Females have a greater sense of envy and deprivation with respect to money as a means of obtaining things and experiences that they can enjoy in the present. *Journal of Economic Psychology*, March 1993, 14(1): 175–182. (Reprinted with permission of North-Holland Publishing Company.)

ESTATE PLANNING AND DISTRIBUTION

Housing Costs and Bequest Motives, by Y. Nakagami and A. M. Pereira

The standard user cost of housing capital used in the literature has ignored household bequest motives. In this paper, the authors generalize the standard approach to incorporate bequest motives and inheritance tax distortions between physical and financial assets. The authors show that if there is a favorable treatment of housing assets over financial assets then the standard user cost of housing capital overestimates the actual user cost by not accounting for the bequest-related benefits of home ownership. *Journal of Urban Economics*, January 1993, 33(1): 68–75. (Reprinted with permission of the *Journal of Economic Literature*.)

ETHICS

Assessing Some Determinant Effects of Ethical Consulting Behavior: The Case of Personal and Professional Values, by Jeff Allen and Duane Davis (University of Central Florida).

A random sample of 207 national business consultants is employed to test the effects of individual values and professional ethics on consulting behavior. The results suggest that the individual values held by consultants are positively correlated with professional ethics, but are negatively correlated with consulting behavior. Moreover, there appears to be no significant relationship between the professional ethics of consultants and business consulting behavior. Findings and issues regarding the effectiveness of codes of ethics and implications for both the provider and recipient of professional consulting services are discussed. *Journal of Business Ethics*, June 1993, 12(6): 449–458. (Reprinted with permission of the *Journal of Business Ethics*.)

IMPLICATIONS FOR FINANCIAL PLANNING

Economic Well-Being of Disabled Elderly Living in the Community, by Marlene S. Stum, Jean W. Bauer, and Paula J. Delaney.

This study focuses on understanding the economic well-being of a growing subgroup of elderly, noninstitutionalized elderly facing risks of health problems and financial dependency. The combination of predisposing characteristics and resources that best explain differences in economic well-being of elderly was examined using a sample from the 1984 National Long Term Care Survey of elderly with functional limitations living in the community (N=5500). Significant differences in economic well-being were related to age, marital status, gender, race, income sources, and education. Almost one-third (32.6%) were poor and 41% had income-to-needs ratios between 1.0 and 2.0 suggesting economic vulnerability. Resource variables added the most explanation for differences in economic well-being, especially sources of income beyond Social Security. The results show the importance of having retirement income sources beyond Social Security for preventing poverty in retirement. *Financial Counseling and Planning*, 1993, 4: 199–216. (Reprinted with permission of *Financial Counseling and Planning*.)

INDIVIDUAL FINANCIAL MANAGEMENT BEHAVIOR

Expectation of Future Financial Condition: Are Men and Women Different? By Vicki Schram Fitzsimmons and Satomi Wakita.

Expectation of future financial condition can be a powerful motivator of an individual's financial management. This study found no difference in male and female financial managers' expectation of future financial condition. There were some differences in the determinants of expectation. For both sexes, positive relationships were found between expectation of financial condition in five years and (a) general locus of control, (b) financial locus of control, and (c) perception of present financial condition compared to five years ago. Age was inversely related. For females, education and satisfaction with level of consumption also were related positively. Implications for financial counselors and educators are given. *Financial Counseling and Planning*, 1993, 4: 165–180. (Reprinted with permission of *Financial Counseling and Planning*.)

INVESTMENT SELECTION AND INDIVIDUAL PORTFOLIO MANAGEMENT

A Reexamination of the Investment Performance of Junk Bonds, by Terry L. Zivney (Ball State University), William J. Bertin (University of Tennessee, Chattanooga) and Khalil M. Torabzadeh (Radford University).

This paper reexamines the investment performance of junk bonds relative to that of corporate bonds in general. Bond ratings are highly correlated with promised yield to maturity for bonds of all quality classes, but are not strongly correlated with realized risk-adjusted return. The previously reported superior performance of junk bonds is shown to be a result of confusing promised yield with realized performance. Those investors who value results more highly than promises will need more information than the bond rating and promised yield to maturity. *Quarterly Journal of Business and Economics*, Spring 1993, 32(1): 78–93. (Reprinted with permission of *Quarterly Journal of Business and Economics.*)

Corporate Spin-Offs and Closed-End Funds in a State-Preference Framework, by Jacques A. Schnabel (Wilfrid Laurier University, Waterloo, Ontario, Canada).

Miller's clientele argument for market value subadditivity as an explanation for stockholder wealth gains in corporate spin-offs and discounts from the net asset value of closed-end fund shares is examined in the context of a simple state-preference model. It is shown that binding short sales constraints induce value subadditivity and thus render Miller's clientele argument valid. This is true regardless of whether or not divergence of opinion among investors or state-dependent utility functions exist. In the absence of binding short sales constraints, value additivity prevails and Miller's clientele argument is not viable. Although personal taxes are not considered in the model developed in this paper, it is shown that tax-timing options reinforce the existence of value subadditivity. *The Financial Review*, August 1992, 27(3): 391–409. (Reprinted with permission of *The Financial Review.*)

Dividend Yields and Stock Returns: Evidence of Time Variation Between Bull and Bear Markets, by Michael J. Gombola (Drexel University) and Feng-Ying L. Liu (Rider College).

This study documents persistent shifts in the relationship between stock returns and dividend yields over bull and bear markets. The shift in this relationship appears as a separate effect, distinct from the January effect, after controlling for firm size and systematic risk. After controlling for these factors dividend yield is positively related to return during bear markets but negatively related to return during bull markets. This time-varying relationship between dividend yield and stock return helps to explain the anomalous results of earlier studies. *The Financial Review*, August 1993, 28(3): 303–327. (Reprinted with permission of *The Financial Review*.)

Private Benefits From Block Ownership and Discounts on Closed-End Funds, by Michael J. Barclay (University of Rochester), Clifford G. Holderness (Boston College) and Jeffrey Pontiff (University of Washington).

The greater the managerial stock ownership in closed-end funds, the larger the discounts to net asset value. The average discount for funds with blockholders is 14%, whereas the average discount for funds without blockholders is only 4%. This relation is robust over time and to various model specifications that control for other factors that affect discounts. We argue that blockholders receive private benefits that do not accrue to other shareholders and that they veto open-ending proposals to preserve these benefits. We support this argument by documenting a range of potential private benefits received by blockholders in closed-end funds. *Journal of Financial Economics*, June 1993, 33(3): 263–291. (Reprinted with permission of North-Holland Publishing Company.)

The Effects of the Insider Trading Sanctions Act of 1984: The Case of Seasoned Equity Offerings, by Thomas H. Eyssell and James P. Reburn (University of Missouri, St. Louis).

Previous empirical research indicates that corporate insiders tend to increase (decrease) their shareholdings before events that increase (decrease) firm value. More recent evidence suggests, however, that passage of the Insider Trading Sanctions Act of 1984 (ITSA) may have deterred this behavior. Our results indicate that before passage of the ITSA, insiders exploited their access to nonpublic information by selling shares before the announcement of equity issues. However, after passage of the ITSA insiders no longer displayed this behavior. We conclude the ITSA has a deterrent effect, which is more heavily concentrated on insiders at the highest level of the firm who are most visible to regulators and other market participants. *The Journal of Financial Research*, Summer 1993, 16(2): 161–170. (Reprinted with permission of *The Journal of Financial Research*.)

The Ethical Investor: Exploring Dimensions of Investment Behavior, by Paul Anand and Christopher J. Cowton (University of Oxford, Oxford, UK)

Finance theory conventionally focuses on risk and return as the factors relevant to the construction of investment portfolios. But there is evidence of a growing number of investors who wish to incorporate moral or social concerns in their decision-making. Using principal components analysis, this paper attempts to infer possible 'non-financial' dimensions of utility functions by considering the preferences of 125 'ethical investors'. *Journal of Economic Psychology*, June 1993, 14(2): 377–385. (Reprinted with permission of North-Holland Publishing Company.)

Twenty-Five Years of Tax Law Changes and Investor Response, by David Lynn Skinner (Ashland University).

Ex-dividend day research detects dividend-clientele effects that the tax-clientele hypothesis attributes to personal taxation. In this study I examine all 10 personal tax changes between 1963 and 1988 and find little support for the tax-clientele hypothesis. Few tax changes are accompanied by significant changes in the ex-day ratio, and more than half are opposite the direction predicted. In particular, the largest tax changes, in 1982 and 1987, fail to support the tax-clientele hypothesis. The results are consistent with some unknown, non-tax-induced clientele effect(s). *The Journal of Financial Research*, Spring 1993, 16(1): 61–70. (Reprinted with permission of *The Journal of Financial Research.*)

Investment Decisions and the Theory of Planned Behavior, by Robert East (Kingston Polytechnic, Kingston, UK)

Three studies of application for shares in privatized British industries are reported. Study 1 was on the regional electricity companies, Study 2 was on the electricity generating companies and Study 3 was on the second tranche of shares in British Telecom.

The studies applied Ajzen's (1991) theory of planned behavior. In each case the application for shares was accurately predicted by measured intention. Intention was in turn explained by attitude, subjective norm, perceived control and past behavior. At a more specific level the research demonstrated the strong influence of friends and relatives and the importance of easy access to funds as well as the financial criteria of profit and security of investment.

The research was used to test aspects of planned behavior theory and two matters were considered in detail. The first matter was the conditions under which a measure of perceived control improved on the prediction of behavior obtained from intention alone. The second matter was the association between product sum variables and globally measured variables; in the theory these are equated but rather low correlations are often found. *Journal of Economic Psychology*, June 1993, 14(2): 337–375. (Reprinted with permission of North-Holland Publishing Company.)

"Investor Sentiment" and the Closed-End Fund Puzzle: A 7 Percent Solution by Greggory A. Brauer

Lee, Shleifer, and Thaler (1991) argue that the "irrational noise trader" model of DeLong, Shleifer, Summers, and Waldmann (1990) "...is consistent with the published evidence on closed-end fund prices..." However, Lee, Shleifer, and Thaler provide no indication of how much of the variability of a closed-end fund's discounts and premiums is due to such "investor sentiment." Using the signal extraction technique of French and Roll (1986) to measure noise, this article estimates that on average only 7% of the variance of a standardized measure of weekly changes in discounts and premiums can be attributed to noise-trading activity. "Investor sentiment," therefore, seems to account for very little of a closed-end fund's discount and premium variability over time. *Journal of Financial Services Research*, September 1993, 7(3): 199–216. (Reprinted with permission of Kluwer Academic Publishers.)

The Hidden Costs of Stock Market Liquidity, by Amar Bhide (Harvard University).

The seemingly unrelated problems of stock market liquidity and manager-stockholder contracting are closely intertwined. Active stockholders who reduce agency costs by providing internal monitoring also reduce stock liquidity by creating information asymmetry problems. Conversely, stock liquidity discourages internal monitoring by reducing the costs of 'exit' of unhappy stockholders. The U.S. has exceptionally many actively-traded firms with widely-diffused stockholding because public policy has favored stock market liquidity over active investing. And, the benefits of stock market liquidity must be weighed against the costs of impaired corporate governance. *Journal of Financial Economics*, August 1993, 34(1): 31–51. (Reprinted with permission of North-Holland Publishing Company.)

MODELS FOR INDIVIDUAL FINANCIAL MANAGEMENT

An Exploratory Study for a Model of Personal Financial Management Style, by Kathy Prochaska-Cue.

This article explores: (a) the initial exploratory development of a model of personal financial management style drawing from the work of McKenney and Keen (1974); Deacon and Firebaugh (1988); Gross, Crandall, and Knoll (1980); and Rettig (1987), and (b) the initial development of an instrument to be used in measuring the proposed model of personal financial management style. Responses of 128 adults were used to test the scales for the hypothesized instrument for validity and reliability using factor analysis. Results included the identification of 14 possible items for the Analyzing Scale, and eight possible items for the Holistic Scale. Future research is needed for further development of both the hypothesized model of personal financial management style and of the scales for the hypothesized instrument to measure personal financial management style. *Financial Counseling and Planning*, 1993, 4: 111–134. (Reprinted with permission of *Financial Counseling and Planning.*)

MUTUAL FUND PERFORMANCE

The Performance of Bond Mutual Funds, by Christopher R. Blake (Fordham University), Edwin J. Elton and Martin J. Gruber (New York University).

Using linear and nonlinear models, we examine two samples of bond funds: one sample designed to eliminate survivorship bias, and a second much larger sample. Overall and for subcategories of bond funds, we find that bond funds underperform relevant indexes post-expenses. Our results are robust across a wide choice of models. We find that, on average, a percentage-point increase in expenses leads to a percentage-point decrease in performance. The nonlinear model weights closely match actual composition weights. We find no evidence of predictability using past performance to predict future performance for our unbiased sample. *Journal of Business*, July 1993, 66(3): 371–403. (Reprinted with permission of The University of Chicago Press.)

PENSION FUND PERFORMANCE

The Investment Performance of U.S. Equity Pension Fund Managers: An Empirical Investigation, by T. Daniel Coggin (Virginia Retirement System), Frank J. Fabozzi (Fabozzi and Associates), and Shafiqur Rahman (Portland State University).

This paper presents an empirical examination of the selectivity and market timing performance of a sample of U.S. equity pension fund managers. Regardless of the choice of benchmark portfolio or estimation model, the average selectivity measure is positive and the average timing measure is negative. However both selectivity and timing appear to be somewhat sensitive to the choice of a benchmark when managers are classified by investment style. Meta-analysis revealed some real variation around the mean values for each measure. The 80% probability intervals for selectivity revealed that the best managers produced substantial risk-adjusted excess returns. We also found a negative correlation between selectivity and timing, but we argue that the observed negative correlation in our data is largely an artifact of negatively correlated sampling errors for the two estimates. *The Journal of Finance*, July 1993, 48(3): 1039–1055. (Reprinted with permission of the *Journal of Finance*).

RISK ATTITUDE OF INVESTORS

Do More Risk-Averse Investors Have Lower Net Worth and Income? By Thomas H. McInish (Memphis State University), Sridhar N. Ramaswami (Iowa State University), and Rajendra K. Srivastava (University of Texas, Austin).

This study examines the relationship between attitude toward risk and both net worth and income. The data are obtained from a financial diary kept by a national, scientifically selected sample of more than 3000 households. Results show that both net worth and income are negatively related to risk aversion. *The Financial Review*, February 1993, 28(1): 91–106. (Reprinted with permission of *The Financial Review*.)

TAXATION

Tax Schedule Changes and Discount Bond Prices, by Ricardo J. Rodriguez (University of Miami).

Research on the impact of marginal tax changes on bondholder wealth focuses on changes along a given tax schedule. In this paper the valuation consequences of changing the tax schedule are analyzed. Although previous researchers show that the price of all discount bonds fall if the marginal ordinary income tax rate increases along a tax schedule, it is found that this result holds only under specific conditions when the tax schedule changes. Various comparative statistics are discussed. *The Journal of Financial Research*, Fall 1991, 14(3): 249–254. (Reprinted with permission of *The Journal of Financial Research*.)

An Examination of Tax Practitioner Decisions: The Role of Preparer Sanctions and Framing Effects Associated with Client Condition, by Kaye J. Newberry, Philip M.J. Reckers and Robert W. Wyndelts (Arizona State University).

Tax practitioners play an important role in the voluntary compliance system. Not only do professionally prepared returns account for a significant percentage of the tax returns filed in the U.S., but empirical evidence suggests that practitioners help taxpayers lower their tax liabilities by taking advantage of ambiguous features of the tax law.

This study investigates whether selected factors influence the decisions made by professional tax preparers. The subjects include 107 experienced tax practitioners who are certified public accountants. The results reflect that there is a significantly greater likelihood that the tax practitioners would sign tax returns containing a large deduction associated with an ambiguous tax issue if (1) the signing decision is made in relation to an existing client (a loss decision frame in the context of the study) or (2) tax preparer penalties are communicated with high enforcement intent. *Journal of Economic Psychology*, June 1993, 14(2): 439–452. (Reprinted with permission of North-Holland Publishing Company.)