# From the Editor

Lewis Mandell

This issue of *Financial Services Review* completes the fourth year of publication. It is also my last edition as editor. The new editor is Professor Karen Lahey of the University of Akron. The change in editorship coincides with the change in my own career since I have assumed the role of Dean of College of Business Administration at Marquette University in Milwaukee, Wisconsin.

When *Financial Services Review* was started by the Academy of Financial Services, the primary goal was to have an outlet for the dissemination of high quality research in the area of individual financial management. Given the proliferation of new journals, cutbacks in library funding, and professional uncertainty of the "seriousness" of individual financial management, the success of this endeavor was by no means assured. Indeed, this journal has suffered through most of its existence from a shortage of articles deemed by our editors to be of sufficiently high quality. But now, eight issues after our beginning, we appear to have achieved the respect of authors as well as the academic administrators who judge the quality of their work.

The current issue consists of six articles representing three component areas of individual financial management. Reflecting the interests of both authors and readers, half are in investing while two relate to consumer credit and one relates to disability income insurance.

The lead article, "Fund Closings as a Signal to Investors: Investment Performance of Open-End Mutual Funds That Close to New Shareholders," was written by Professors Smaby and Fizel. They find that funds that close to new shareholders tend to do so following a period of greater-than-average returns. The announcement effect of an impending closing tends to result in extraordinary sales of fund shares, but the performance after the fund closes tends to be far less than when the fund was open. The bottom line for individual investors is to be aware of fund closings because they may be nothing more than a sales device to take advantage of a past period of unusually good returns.

A second article, by Professors Benson, Rystrom, and Smersh, examines "Commission-Motivated Trading Patterns of Brokers Across the Production Month." Perhaps no surprise to readers who find that unsolicited calls from securities brokers tend to come at the end of the month, the authors found that a quarter of brokers in their sample earned a significantly higher portion of monthly commissions in the last five days of the month than one would expect if their customers had traded in a uniform fashion across the month. The authors are

concerned that broker-induced trading at the end of the month may contribute more to the welfare of brokers than their clients.

A third investment-related article was written by Professor Knight and myself and is titled "Optimal Holding Period for Assets That Must Be Liquidated: A Certainty Equivalent Wealth Approach." This article examines a commonly asked question in a sophisticated manner and comes up with a counterintuitive answer. The question is: "If I put money into growth stocks for my child's education in 15 years or my retirement in 20 years, how many years before that event do I move the assets into a more secure form?" By using a certainty equivalent wealth approach that looks at the utility function of investors across the risk preference spectrum, the answer comes up "zero." Unless an investor's risk preference changes, utility is maximized by holding an appropriately balanced portfolio for the entire holding period.

Professors Cox and Gustavson examine "The Market Pricing of Disability Income Insurance for Individuals." They find that disability income insurance appears to be sold in a competitive market and they find a strong relationship between prices and elimination periods supports the presence of adverse selection. The results suggest that buyers may need to be better informed about some of the pricing factors of disability income insurance.

Why are many credit card holders seemingly insensitive to interest rates charged on the cards? This phenomenon is examined by Professors Sullivan and Worden in their article "Credit Cards and the Option to Default." One possible reason relates to the unsecured nature of the credit card and the benefits of defaulting on such cards prior to declaring personal bankruptcy. They estimate the value of the option to default on unsecured credit card contracts and find that it is significantly affected by state and federal laws governing the collection practices of creditors and bankruptcy. In those states where it is easier to default, the default option is utilized more frequently. They also find that card holders who use their credit lines intensively before default are more likely to make a rational default decision which maximizes their benefits.

The final article, by Professors DeVaney and Lytton, is titled "Household Insolvency: A Review of Household Debt Repayment, Delinquency, and Bankruptcy." This article is one in an occasional series of review pieces designed to bring readers of *Financial Services Review* up to date in the various components of their field. The paper explores issues related to the meaning and measurement of insolvency within the household. It reviews, among other things, predictive models and financial ratios as techniques for identifying insolvent households.

At the end of the Journal, as always, Professor Phyllis Myers presents "Abstracts of Articles on Individual Financial Management." This feature of *Financial Services Review* is designed to keep our readers informed of other related articles in scholarly journals.

I would like to thank those who helped make this journal a success. The list begins with my managing editor, Barbara Poole, who also steps down with this issue to finish her dissertation. In addition, the editors, most of who have been with us since the inception, have been largely responsible for our success. Of course, the reviewers, who have worked with the editors, have contributed a great deal to maintaining our high level of scholarship. Thanks also go to the Academy of Financial Services, which has lent solid support to the journal since its conception, and to the publisher, JAI Press.