

From the Editor

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Financial Services Review (FSR) is the official publication of the **Academy of Financial Services**. This refereed academic journal encourages rigorous empirical research that explores all aspects of *individual financial management*.

The current issue consists of six articles that provide boundary spanning efforts across a variety of financial topics and should be of interest to both academics and financial service providers. The first three examine the selection of mutual funds, individual stocks, and enhanced CDs, while the fourth tests a new financial criteria for determining the churning of individual accounts. The last two articles focus on cooperative efforts between academics and practitioners interested in furthering research in financial services.

The first article, "Equity Fund Size and Growth: Implications for Performance and Selection," is written by Conrad Ciccotello and Terry Grant. Their empirical research tests the impact of fund size on the performance and subsequent selection of mutual funds. They conclude that individuals who are have an aggressive growth objective should select smaller funds which have the potential to be the next "Magellan." For investors whose objective is growth and income, they find no systematic relationship between performance and size. In addition, they provide an excellent review of the recent surge of academic studies that reflect the extraordinary growth of mutual funds during the 1990s.

Mark Walker and Gay Hatfield choose to test a widely available source (*USA Today*) for the selection of individual stocks in their article, "Professional Stock Analysts' Recommendations: Implications for Individual Investors." They first explore a variety of techniques that include stock index benchmarks, event study methodology, and the Sharpe, Treynor, and Jensen indexes to measure analysts' ability to identify mispriced stocks. Results indicate that the most defensible technique is the Sharpe, Treynor, and Jensen measures. Walker and Hatfield then test individual investor's ability to profit from analysts' recommendations and find that it is difficult for individual investors to benefit.

The third article shifts the individual investment selection choice to bank certificates of deposit and is entitled, "Computing Yields on Enhanced CDs." Robert Brooks provides a framework and a model for comparing the effective annual rate for standard CD products and those CDs with an embedded derivative. This research brings together two strands of academic research: (a) CDs from the perspective of the role of government guarantees and the factors that influence changes in CD rates, and (b) interest rate contingent claims valuation for the enhanced CD product. Brooks' clear message is that enhanced CD valuation is much more complex than the simple CDs of an earlier time period, and both individual

investors and bank executives must carefully analyze their objectives in selecting these new products.

Stewart Brown's article, "Churning: Excessive Trading in Retail Securities Accounts" provides another boundary spanning effort at the intersection of legal and financial analysis in security brokers handling of individual accounts. Drawing on his experience as an academic and an expert witness, he argues for an alternative financial model (commission to equity ratio) to the current criteria (turnover ratio) in determining if churning has occurred. His arguments for a different criteria are illustrated with summary data from 23 actual churning cases. Additionally, he provides statistics on actual commissions paid for both equities and options.

In an effort to bring about consensus between academics and financial planners, Sue Greninger, Vickie Hampton, Karrol Kitt, and Joseph Achacoso employ a Delpi approach in their research. Their article entitled, "Ratios and Benchmarks For Measuring the Financial Well-Being of Families and Individuals" reviews academic literature on ratio analysis starting with the traditional business applications and then moves to its use for individuals. They report on 22 ratios that are recommended in their study and then propose a smaller list of ratios to be included in a financial well-being profile. Their suggested series of ratios include measures of liquidity, savings, asset allocation, inflation protection, tax burden, housing expenses, and insolvency.

The last article, "An Emerging Partnership: AFS and the CFP Board" by Dede Pahl discusses the needs and benefits of a partnership between academic members of the **Academy of Financial Services** and the **CFP Board**. Dede is an active personal boundary spanner whose official title is Director of Certification for the **CFP Board** and a Board of Directors member of the **Academy of Financial Services**. She explains the history and mission of the **CFP Board** and the partnership that is developing between the two organizations.

The last item listed in the Contents is a new section that is being initiated with this issue of *FSR*. Douglas Kahl has volunteered to be responsible for this section, which is entitled "**Book, Software and Web Site Reviews**." He has started the section by reviewing a book written by Beam and McFadden that is titled, *Employee Benefits*. John Clinebell has reviewed Garman and Fogue's *Personal Finance* textbook. The section concludes with a review of the web site for the London International Futures and Options Exchange. Doug is very interested in hearing from you if you are willing to volunteer to do a review or offer materials to be reviewed.

I would like to thank the editorial board for all of their advise and the reviews they have promptly returned as well as the 54 ad hoc reviewers who have responded to my request to help shape the future of the *Financial Services Review*. I look forward to hearing your reactions to the articles in this issue. I will publish interesting responses in the new member section, **AFS Notes Section**. In addition, your ideas for future articles can be transmitted to me in the form of letters, e-mail, or hits on our *FSR* web site. The address to the web site is [<http://www.vakron.edu/cba/fsr/frs.htm/>].