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Book, Software, and Web Site Reviews

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The Millionaire Next Door.

Thomas J. Stanley and William D. Danko
Marietta, GA: Longstreet Press, Inc.; 1996

Reviewed by: Douglas R. Kahl, Professor of Finance, The University of Akron.

Thomas J. Stanley and William D. Danko surveyed 3000 heads of households expected to have high net worth. Of the 1,115 respondents, 385 had household net worth of at least $1,000,000. They present the results of the eight page surveys in a 258-page book, *The Millionaire Next Door.* Based on the survey, in depth interviews and prior research Stanley and Danko paint a detailed portrait of the American millionaire. They will tell you what the millionaire is likely to drive; how much he will spend for a suit, watch and shoes; how long and how often he has been married; and, perhaps what is most important, how he became a millionaire.

Stanley and Danko's portrait may not surprise most experienced financial planners, but will come as a shock for many of those who want to sell goods and services to the wealthy, who want to become wealthy, or who simply want to appear to be wealthy. The results presented in the book are thoroughly discussed and are enhanced by many examples and illustrations. While the covers of the book may be a little farther apart than is absolutely necessary, the book is well worth reading for the insights it provides into the modern American millionaire and his lifestyle.

The Financial Services Revolution.

Edited by Clifford E. Kirsch
Irwin Publishing; 1997.

Reviewed by: J. Tim Query, Dept. of Risk Management & Insurance, University of Georgia.

The Financial Services Revolution examines the important changes that have taken place in the last two decades in the financial services industry. Its intention is to bridge the interests of policy makers, practitioners, and academics. To that end, submissions are included from practitioners, academics, and officials from regulatory agencies. Editor Clifford E.

Kirsch is chief counsel, Variable Products, at the Prudential Insurance Company of America.

This book is divided into eight parts. Part I examines the evolution of bank and insurance company activities. An interesting survey of bank securities activities, including a review of the history of commercial bank securities activity since the Civil War, provides a chronological narrative. Another chapter examines the regulatory structure that applies to equity-based insurance products. The regulatory developments that have allowed banks to become sellers of securities and insurance products are reviewed, and issues relating to bank underwriting of these products are explored as well. Part I concludes with a discussion of the tension between bank regulators and insurance regulators over issues concerning the authority of banks.

Part II focuses on derivatives. An excellent overview of derivatives is presented that include an explanation of how these products work and why they are used. The coverage of derivatives begins with the basics, and is highly recommended for those who may not be familiar with this complex area of securities. The debate over what type of derivative activity should be covered by the Commodity Exchange Act is examined extensively. The final chapter in Part II focuses on the issue of whether off-exchange derivative transactions should be subject to antifraud provisions of federal law.

Part III demystifies securitization, explaining the process by which illiquid loans are converted into securities. A thorough discussion of future prospects for this financing vehicle is accommodated here as well.

Part IV examines the policy issues related to the growing popularity of the defined contribution pension plan and in particular, the "401(k) plan," a market in which banks, insurance companies, and mutual funds vigorously compete. Reasons for the popularity of the 401(k) plan, the regulatory framework governing communications to participants concerning their investment options, and a review of recent initiatives of the Department of Labor related to DC plans are included in Part IV.

In Part V the role of mutual funds in corporate governance contrasted with the role of banks and insurance companies is discussed. The issues of trading versus monitoring, "the prisoner's dilemma"—type incentive problems driving shareholder actions, and various paradoxical conflicts of interest are identified and provide interesting reading.

Part VI focuses on issues relating to the mutual fund industry. Situations originating from the growing use by mutual funds of computer networks and other types of electronic media as a means to reach investors are examined. The motivation behind recent SEC regulations restricting money market funds to investments in top-quality securities with low volatility and a short maturity is explained. The concluding chapter in Part VI deals with issues related to effectively disclosing risk to mutual fund investors.

Part VII looks at pooled investment management vehicles designed for the wealthy and non-U.S. investors. The focus is on issues related to hedge funds, which are sold to wealthy individuals and institutions and avoid much of the regulatory scheme imposed on mutual funds, although they are structurally similar to them. Part VII also looks at offshore investment funds, which are pooled vehicles that are established by U.S. advisers for non-U.S. resident investors.

The final section, Part VIII, examines issues related to the regulatory framework applying to mutual funds, banks, and insurance companies. The question of whether a self-regulatory organization similar to that which exists for brokerage firms, be established for mutual funds and advisers is addressed. The overlapping jurisdictions among federal and state regulatory agencies that apply to financial services regulation are also discussed. A perceptive look at the changes in the U.S. financial markets caused by the growth and expanded role of mutual funds provides stimulating insight. An explanation of functional regulation, a structure where financial activity is regulated by the same regulator regardless of the type of financial institution conducting the activity may serve as a preview of future regulatory strategy. Part VIII's discussion is concluded by contrasting the various regulatory methods used to regulate risk in the financial services industry.

Wealth Management.
Harold Evensky
Chicago, IL: Irwin Professional Publishing; 1997
(ISBN 0-7863-0478-2)

Reviewed by: Dale L. Domian, Associate Professor of Finance, Memorial University of Newfoundland.

Harold Evensky's *Wealth Management* provides a comprehensive and informative guide to financial planning. As noted by Pahl (1996), there are several key steps to the financial planning process, including gathering data to identify the client's objectives, developing the financial plan, and implementing and monitoring the results. While some planners may focus on specific areas such as tax or estate planning, others take a broader perspective to include all aspects of their clients' financial lives. *Wealth Management* is directed toward the latter group, presenting a broad holistic approach for practitioners who truly are "wealth managers."

An underlying theme is that investment recommendations should be consistent with results from academic and professional research. Evensky champions the work of Brinson, Hood, and Beebower (1986), who show that 94 percent of the variation in portfolio returns is attributable to asset allocation, with just 4 percent due to security selection and only 2 percent from market timing. The book also recommends that projections of real returns and risk premiums be based on historical data, such as the well-known Ibbotson series. A wealth manager can then determine an asset allocation which minimizes risk, while at the same time providing a sufficiently high expected return to meet the client's needs.

The book is organized in 16 chapters which progress through the key steps of the wealth management process. The first five chapters focus on the importance of a two-way exchange of information between wealth managers and clients. Evensky provides his personal insights on gathering information from clients, and on explaining important finance principles so that clients will have realistic goals on what is obtainable. The section on taxes includes a discussion of portfolio tax management, refuting claims that substantial gains are available from active tax management strategies.

Chapters 6 and 7 provide a concise overview of statistics and portfolio theory. Unfortunately, several formulas contain errors, and some of the explanations are imprecise. Readers without previous training in investment mathematics could be better served by the more detailed treatment in most investment textbooks (e.g., Sharpe, Alexander, and Bailey [1995]).

Asset allocation models and the development of investment policies are considered in Chapters 8 through 10. The use of mathematical optimizers is recommended, with the