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
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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

wealth manager providing constraints on minimum and maximum proportions for each asset class. The end result can be presented to the client as part of a detailed written financial plan.

Wealth managers typically implement their recommendations through mutual fund investments. Chapters 11 through 13 discuss selection and evaluation of funds and their managers. Some compelling evidence is presented for passive management techniques such as indexing. However, Evensky observes that there are pragmatic reasons for including some actively managed funds. Many clients receive psychological benefits from attempting to beat the market, and may be unwilling to pay fees year after year to wealth managers who construct all-passive portfolios. Acquiescing to this could be a bit unsettling to academics, but is probably necessary for practitioners working in the real world.

The final three chapters of the book consider special topics. Chapter 14 uses examples from Evensky's own firm to illustrate some of the business aspects of running a wealth management practice. This provides many useful ideas for planners at all levels of experience. Chapter 15 discusses fiduciary investing in accordance with the Employee Retirement Security Act (ERISA) of 1974, the Restatement of Trusts Third in 1992, and the Uniform Prudent Investor Act (UPIA) of 1994. Readers unfamiliar with these acts will be pleasantly surprised to find that modern fiduciary law is firmly grounded in investment theory. Concluding remarks are made in Chapter 16, again drawing on the author's experience to present the philosophy of his own wealth management practice.

Wealth Management is an excellent book which can be enthusiastically recommended to a wide range of readers. It provides first-rate investment advice for its intended audience of financial planners and other practitioners involved in managing multiple asset class investments. In addition, the book is also very suitable for the academic readers of *Financial Services Review*; most already know the finance theories but may have little experience at addressing the concerns of financial planning clients. The practical knowledge from this book can give new insights on directions for research in personal financial management.

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