From the Editor

Karen Eilers Lahey

This last issue of Volume 6 is devoted to the rigorous analysis of individual investor options in terms of taxable and nontaxable fund allocations. The first two articles examine the new choices that individual investors face with their retirement dollars. These include deductible IRAs, nondeductible IRAs, the new Roth IRAs, and mutual funds. Terry L. Crain and Jeffrey R. Austin provide mathematical models for after-tax accumulations for each of the investment alternatives that considers return, taxable return, time horizon, and tax rates for ordinary income and capital gains. The focus in their article entitled, "An Analysis of the Tradeoff Between Tax Deferred Earnings in IRAs and Preferential Capital Gains" is on individuals who are currently in the 31 percent or higher tax bracket.

Stephan M. Horan, Jeffrey H. Peterson, and Robert McLeod extend the analysis to those individuals whose tax brackets may be lower after they retire. "An Analysis of Nondeductible IRA Contributions and Roth IRA Conversions" examines taxable mutual fund investments versus nondeductible IRAs and the desirability of converting existing IRAs to Roth IRAs. They find that the mutual fund option is less attractive when withdrawal tax rates decline and that the conversion to Roth IRAs works best for those who will remain in the same tax bracket upon withdrawal.

Several large mutual funds have recently been closed to new investors, and are the subject of the article entitled, "Performance of Mutual Funds Before and After Closing to New Investors". Herman Manakyan and Kartono Liano test the impact of the closing of 27 mutual funds. They find that those funds that are closed do not perform as well after closing as in prior years, which raises the question as to what individual investors should do if they are in such a fund.

A Canadian perspective on an alternative to United States' equity enhanced Certificates of Deposit are explained and analyzed by Moshe Arye Milevsky and Sharon Kim in an article entitled, "The Optimal Choice of Index-Linked GICs: Some Canadian Evidence". These instruments are known as indexed linked guaranteed investment certificates. The authors use concepts from option pricing theory to value them by decomposing the payoff into a zero-coupon bond and call options on the underlying stock index as suggested in a paper by Robert Brooks in Volume 5, Number 2.

"A Simple and Effective Trading Rule for Individual Investors" addresses a trading rule for individual investors that outperforms a passive buy and hold strategy. Laurie Prather and William Bertin test the effect of the announcement of discount rate changes in predicting market movements over a period of 61 years.

Ryan B. Lee and J. Tim Query provide a review of the 7th edition of **Risk Management and Insurance** by S. Travis Pritchett, Joan T. Schmit, Helen I. Doerpinghaus, and James L. Athearn. Douglas Kahl, who is responsible for this column needs additional volunteers. If you are interested in reviewing a book or a website, please let him know.