



From the Editor

All four issues of Volume 10 of the *Financial Services Review (FSR)* are combined in this publication based on a decision by the publisher, Elsevier Science, Inc. This marks the last volume that they are publishing and that will now become the responsibility of the Academy of Financial Services, the academic sponsor of the journal. A total of 22 articles are included, with four international articles from a special issue edited by Chris Robinson of York University and Larry Rose of Massey University.

Lastly, the other major change in the *FSR* journal is that the editorship of the journal, starting with Volume 11 passes to the very capable hands of Conrad Ciccotello at Georgia State University. Conrad has been a very influential and important associate editor of the journal for the last 6 years as well as serving as a director on the Board of Directors of the Academy of Financial Services.

Given the editorial change, I felt it very appropriate to have the lead article be, “An investigation of the consistency of financial advice offered by web-based sources,” by Conrad S. Ciccotello and Russell E. Wood. They explore the differences in advice an individual might receive depending on what web-based source the individual relied on for financial advice. They find that both client characteristics and planning domains do make a difference in the distribution of effective financial advice from web-based sources.

The next six articles examine various issues concerning retirement plans and assets. One looks at military pensions, a second at the difference between defined benefits and defined contribution plans, a third at determining decisions to contribute to defined contribution plans, and a fourth at changes in net worth of those nearing or in retirement. The fifth and sixth articles examine tax shelter retirement vehicles and the tradeoffs involved in their selection.

In the first of these articles, “The value of retirement income streams: the value of military retirement,” by William W. Jennings and William Reichenstein examine the value of military retirement income. They found that treating the after-tax present value of military retirement income as a bond can dramatically affect a family’s asset allocation.

“A comparison of state university defined benefit and defined contribution pension plans: a Monte Carlo simulation,” by Ken Johnson, Shawn Forbes, and John Hatem looks at the difference in investment risk between the two types of plans using a Monte Carlo simulation. The authors find that higher stock allocations provide for higher earning potential which allows a defined contribution portfolio to accumulate enough wealth to match the promised benefits of a defined benefit plan. They also provide for asset allocation differences in determining the time and mix necessary to match the two plans.

M. Kabir Hassan and Shari Lawrence’s article entitled “The decision to defer: factors affecting employee deferral incentives,” examines defined contribution plans and employee

participation and contribution incentives among these plans. The authors find that there is a direct positive relationship between the percentage of employer contribution to the plan and the amount an employee contributes to the plan.

“Longitudinal changes in net worth by household income and demographic characteristics for the first three waves of the HRS,” by Karen Eilers Lahey and Doseong Kim analyzes the non-housing net worth of a sample of individuals who are 51 years and older over a 6-year-period of time. Demographic characteristics that are found to be significant over time in explaining changes include gender, education, race, religion, income, and age.

The next two articles examine retirement vehicles. V. Sivarama Krishnan and Shari Lawrence’s article entitled “Analysis of investment choices for retirement: a new approach and perspective,” compares deductible IRAs, Roth IRAs, non-deductible IRAs, and open taxable investments by using equal initial after-tax investments for each. The authors discovered that when comparing a deductible IRA and a Roth IRA, a Roth IRA provides more options and flexibility for someone with long investment horizons.

“A reexamination of tax-deductible IRAs, Roth IRAs, and 401(k) investments,” by Stephen M. Horan and Jeffery H. Peterson looks at different tax preferred investment vehicles for retirement planning and how individuals or financial planners make assumptions about how these tax savings are to be invested. They find that employer-sponsored 401(k) plans that match some or all of an employee’s contributions dominate Roth IRAs.

John J. Spitzer and Sandeep Singh’s article titled “The fallacy of cookie cutter asset allocation: some evidence from ‘New York’s College Savings Program’ ” examines why some “prefabricated” asset allocation programs used in select education savings programs may be sub-optimal. Looking at New York’s College Savings Program, the authors discover that the longer the child participates in the plan, the greater the benefit and also the higher the tax bracket the participant is in, the greater the benefit.

“Does loss aversion explain dollar-cost averaging?” by Karyl B. Leggio and Donald Lien look at Statman’s (1995) theory that there is a behavior rationale for the persistence of dollar-cost averaging. The authors then create an alternative utility function which does not require investors to be strictly risk adverse to test Statman’s theory. The authors find that loss aversion still does not explain the existence of the dollar-cost averaging investment strategy.

Frederick P. Schadler and Stanley G. Eakings’s article, “A stock selection model using Morningstar’s Style Box,” places firms in the Morningstar’s Style Box cells and tests whether selecting firms from these cells allows investors to compile a portfolio consistent with their risk tolerance. The authors find that by investing in lower risk value cells, higher returns are possible.

Moshe Arye Milevsky and Kamphol Panyagometh’s article “Variable annuities versus mutual funds: a Monte Carlo analysis of the options,” examines the impact of return uncertainty when comparing the relative benefits of mutual funds with variable annuities. They focus on the embedded tax-options using simulations and conclude that variable annuities are superior to mutual funds over long time horizons of at least 10 years.

“Federal Open Market Committee meetings and stock market performance,” by Cynthia Royal Tori looks at the relationship between contemporaneous stock market returns and Federal Open Market Committee (FOMC) meeting dates between 1960 and 2000. The

author discovers that the FOMC meeting dates have a significantly positive effect on overall market returns.

“Evaluating a stock market timing strategy: the case of RTE Asset Management” by Ahmet Tezel and Ginette McManus provides strong supporting evidence of the timing ability of RTE Asset Management by investigating the implemented buy and sell recommendations derived from its proprietary computerized model from 1979 to 1999. A variety of valuation methods are used to analyze the performance over the 20-year-period.

The next three articles present information on educational issues. The first looks at the CFP examination, the second at proposed changes in the finance curriculum and the third at the establishment of a university trading room.

“The CFPTM Certification Examination process: a discussion of the modified Angoff scoring method,” by J. David Ashby looks at the modified Angoff process, the scoring procedure for the CFPTM Certification Examination, and how it relates to the Certified Financial Planner Board of Standards Certification Examination. He explains the mysterious scoring methodology and its underlying rationale.

Erika W. Gilbert and William L. Scott, in their article, “The Financial Modernization Act: new perspectives for the finance curriculum,” examine the Financial Modernization Act of 1999 and how it changes finance curriculum. The authors suggest that the act helps finance move from an “institutional perspective” that focuses upon the historical specializations of institutions to a “functional perspective” which focuses on the value added by financial services.

John C. Alexander Jr., Charles C. Heck, and Robert B. McElreath in “A guide to building a university trading room,” summarize the benefits, costs, and alternatives associated with building a financial information or trading room. They focus on the specifics of setting up the room and its contents.

John E. Matejkovic and Karen Eilers Lahey examine the growing problem of identity theft in their article, “Identity theft: no help for consumers.” The authors look at the current law and how it does little to help victims of identity theft and propose legislative remedies.

Seth C. Anderson, B. Jay Coleman, and Jeffery A. Born, in their article, “A closer look at trading strategies for U.S. equity closed-end investment companies,” advance earlier studies by investigating many trading strategies and their various transaction costs. The authors determined that the 10 most successful strategies for each transaction cost level exhibit lower coefficients of variation than does the Standard & Poor’s 500 index.

Dr. Chris Robinson from York University in Ontario, Canada and Dr. Lawrence C. Rose from Massey University in Auckland, New Zealand agreed to do a special international issue for this journal, and their hard work is very much appreciated. The following is their introduction to these international articles.

Chris Robinson writes that Eric Girard, Hamid Rahman and Tarek Zaher investigate the relationship between risk and return in nine countries in south-east Asia and the U.S., during the period surrounding the Asian currency problems. They find evidence of over-reaction by looking at conditional variance and returns, contemporaneously. The condition is whether the market is moving up or down, and they find that the compensation for variance is too high in a down market B, that is, negative risk premia are likely to be followed by negative risk premia. This relationship is stronger in emerging markets. Investors in these markets could

benefit by a contrarian strategy of buying against the herd in a down market, though various inefficiencies in these markets could also mitigate against the profitability of such a strategy.

The following three papers consider issues that should be dear to the hearts of individual consumers, according to Larry Rose. All three papers contribute to a better understanding of the individual decision making process in a variety of markets, economic conditions and regulatory constraints.

The first paper, by Clark-Murphy and Gerrans titled “Consultation and resource usage in retirement savings decisions: Australian evidence of systematic gender differences,” considers recent changes to legislation concerning retirement savings plans in Australia. Fund members now have increased ability to choose the types of funds and the asset mix of those funds. The authors report on a survey of members in a particular fund which offers insights into investment decisions and gender differences.

The next paper, by Pinfold, Wilson and Li, “Book to market and size as determinants of returns in small illiquid markets: the New Zealand case,” considers whether consumers trying to undertake investment strategies to exploit book-to-market and size effects can do so in small, relatively illiquid markets. It turns out that this strategy is difficult to implement in New Zealand where limited diversification opportunities exist.

The third paper, Hanna, Kiyamaz, and Perdue in “Portfolio diversification in a highly inflationary emerging market,” examine personal asset allocation decisions by investors in Turkish financial markets. While theory may argue that investors would reduce risk by investing in a well-diversified portfolio, including international assets, this turns out not to be the case for the Turkish investor facing an unstable economic environment.