

From the Editor

This issue contains **Issue 4 of Volume 22** of *Financial Services Review (FSR)*. I would like to thank the board and members of the Academy of Financial Services for their continued support. I continue to work in broadening the scope of articles, while still focusing on individual financial management and personal financial planning. I encourage authors to reach out when discussing implications of their findings in a more comprehensive way. As such, all articles in the Journal more appropriately relate to financial planning issues.

The lead article “Strategies for Mitigating the Risk of Outliving Retirement Wealth” is coauthored by Vickie Bajtelsmit at Colorado State University, LeAndra Ottem Foster at Colorado State University and Anna Rappaport at Rappaport Consulting.

Retirement wealth depends on many factors, including spending and saving decisions, investment performance, qualification for defined benefit or other annuity income streams, health care costs, long-term care risk, and longevity. In this article the authors use Monte Carlo simulation to simultaneously model stochastic financial health, long term care, and life risks and evaluate which financial strategies best mitigate the risk of outliving retirement wealth. They find that a combined strategy of delayed retirement and Social Security claiming, reduced discretionary spending, and LTC insurance produces the best outcomes for typical retiree households.

The second article “What homebuyers need to know about the differential risk of mortgages” is coauthored by Larry J. Prather at Southeastern Oklahoma State University, Che-Chun Lin at National Tsing Hua University, and Ting-Heng Chu at East Tennessee State University. In this article, the authors develop a framework to quantify absolute and relative credit risks of competing mortgage products. They use simulations to examine the default rates of five types of mortgage products under both a normal and stressed economy to examine relative risk differences among the competing mortgage products. Their results suggest that some mortgage products have a default risk four times larger than fixed-rate loans and default probabilities of 30% in a stressed economy. As a result, homebuyers should consider the credit risk of competing mortgage products before selecting a mortgage.

The third article, “A comparison of single factor and multiple factor alphas used in measuring mutual fund performance” is coauthored by Brian Betker at Saint Louis University and Joseph Sheehan at The Moneta Group. The authors compare mutual fund alphas computed using single factor models commonly used by practitioners with the alphas computed using the multi-factor models common in academic research. Although all methods seek to control for a fund’s investing style, single-factor alphas exceed multi-factor

alphas by 50-75 basis points per year on average, with the biggest differences concentrated in small cap funds. Although good performance does not tend to persist, single-factor alphas are about twice as likely to show persistence compared to three- and four-factor alphas. The authors recommend that investors add multi-factor alphas to the set of information used to evaluate mutual funds.

The fourth article, “Financial Knowledge and Student Loan Usage in College Students” is by Victoria Javine at the University of South Alabama. We are all aware that college tuition has increased over time, which is directly related to the number of students requiring financial aid in the form of student loans. In this article, the author measures the level of knowledge students have about student loans to assess whether or not financial knowledge and other demographic information predicts the level of student loan debt. Her results indicate that students in later school years and students with lower grade point averages are more likely to have higher student loan debt levels. Additionally, her results show that in-state students have a lower probability of having higher loan values and that higher levels of credit-card debt and financial independence are related to higher levels of student loans. Using race as a predictor of student loan debt levels, she shows that African American students are more likely to have higher levels of student loan debt than other races.

The final article, “Life Insurance Consumption as a Function of Wealth Change” is coauthored by Wookjae Heo, John E. Grable, and Swarn Chatterjee all at the University of Georgia. In this article, the authors use a large nationally representative longitudinal dataset to explore the association between changing socioeconomic factors and household demand for life insurance across time. Their results indicate that an increase in net worth was positively associated with an increase and negatively associated with a reduction in life insurance consumption among households during the 2004-2008 period.

I would like to send a special thank you to the many reviewers that have significantly contributed to the quality of our journal by providing timely and thorough reviews of the submissions to our journal. Thanks to those who make the journal possible, especially the referees and contributing authors.

We would like to give a big thank you to Keir Educational Resources for sponsoring four issues of our journal.

Please consider submission to the *Financial Services Review* and rely on the style information provided to ease readability and streamline the review process. The Journal welcomes articles over the range of areas that comprise personal financial planning. While FSR articles are certainly diverse in terms of topic, data, and method, they are focused in terms of motivation. FSR exists to produce research that addresses issues that matter to individuals. I remain committed to the goal of making *Financial Services Review* the best academic journal in individual financial management and personal financial planning.

Stuart Michelson
Editor *Financial Services Review*