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Understanding emerging market equity mutual funds: The case of China (pp. 1–19)

Nan Li, Crystal Yan Lin

Investing in emerging equity markets is always a challenge to individual investors, even though the growth potential of these markets is attractive because of their fast economic development. This paper contributes to individual investment by investigating the characteristics of the Chinese stock market through a study of the Chinese equity funds. We find these Chinese funds outperform the stock market benchmark significantly with their Sharpe ratio values; but when performance is measured by asset pricing models, the evidence fades. In addition, larger funds outperform small or medium sized funds, regardless of the model and measurement selection. Our results suggest individual investors should favor actively managed equity funds when total-risk adjusted return is a concern and they should choose indexed funds if market-risk adjusted return is the objective. Investors should generally prefer larger equity funds over smaller funds when investing in the Chinese stock market.

Target-date and balanced funds: Latest market offerings and risk-return analysis (pp. 21–34)

Gaobo Pang, Mark Warshawsky*

This analysis looks at the latest market offerings of target-date funds (TDFs) and balanced funds (BFs) and examines their risk-return characteristics through stochastic simulations. The simulation model includes standard asset market shocks, rare economic disasters, and random labor earnings correlated with macroeconomic shocks. The data suggests that some TDFs are reducing the risky equity exposure from past levels for investors near retirement. The simulation results show that glide path designs are important determinants of wealth levels and volatilities. TDFs as the sole vehicle for retirement wealth accumulation must be considered risky, particularly when the possible occurrences of large economic disasters are considered. Nonetheless, TDFs have less risk than comparable BFs close to retirement and therefore are more suitable for investors with greater priority on wealth protection.

Market timing using the VIX for style rotation (pp. 35–44)

Brian Boscaljon, Greg Filbeck, Xin Zhao

We examine the effectiveness of the market volatility index (VIX) provided by the Chicago Board Options Exchange in timing shifts for style asset allocation. The findings of Copeland and Copeland (1999) suggest portfolios of value stocks outperform (underperform) portfolios of growth stocks following an increase (decrease) in the VIX index. We find some evidence supporting their initial findings using data from 1990 to 2008 that corresponds with the Chicago Board Options Exchange new VIX measurement. However, the results of this study are only statistically significant for longer holding periods of 30 days or more. Thus, for longer holding periods individuals may be able to gain economically significant returns by rebalancing their portfolios between value and growth stocks based on changes in the VIX index.

Retirement withdrawals: Preventive reductions and risk management (pp. 45–59)

John B. Mitchell

This paper builds on Stout and Mitchell (2006), Stout (2008), Spitzer (2008), and Blanchett and Frank (2009) by creating a preventive approach to withdrawal management. Proactive strategies, reducing the withdrawal rate before there are insufficient funds, are shown to significantly reduce the probability of ruin while maintaining the median withdrawal rate. Subpopulation effects of strategy changes and improvements in reporting of results are explored. Data covers 1926–2008 and the life table is extended to 108 years. Optimization yields a 6.04% median withdrawal rate and 0.2% probability of ruin.

The financial planning education and training agenda in Australia (pp. 61–74)

Ken Bruce[a,*], Rakesh Gupta[b]

Against a backdrop of financial services reform and uncertain economic times, attention has been focused on the competence of financial advisers. This paper examines the current training and education standards set by the Australian Securities and Investments Commission and those set by professional bodies such as the Financial Planning Association of Australia. It provides a comparison of the state of regulation of financial planners in the United States with the recent report released by the Government Accountability Office (GAO). The paper suggests that minimum training standards set by the Australian regulator have allowed private education providers to capture the training and education agenda away from the profession with the result that financial planning in Australia may not yet be a profession, but simply an industry.

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Life Cycle funds: lack of disclosure and lack of return (pp.75–94)

Amy F. Lipton, Richard J. Kish

Life Cycle funds have been a Qualified Default Investment Option for automatic enrollment for 401(k) retirement plans since 2006. Close examination of these funds and existing benchmarks reveals little transparency or uniformity in allocation, methodology, and timing. Already $340 billion, and growing, these funds' characteristics can have a significant impact on individuals' long-term investment decisions. While many studies of Life Cycle investing use simulation, our contribution is to construct simple benchmarks for empirical analysis of Life Cycle fund performance. Our analysis shows that the funds largely underperform dynamic and static benchmarks across target dates on an absolute and risk-adjusted basis.

Exploring the pros and cons of target date funds (pp. 95–111)

Ben Branch, Liping Qiu

Herein, we explore the potential performance of both fixed allocation and target date strategies using one, five, 10, 20, and 40 year bootstrapping windows. We find not only that the mean accumulations and annuity values rise with the stock allocation percentage but also that both the Sharpe and Treynor ratios are substantially higher for the high concentration stock portfolios. These results challenge the claims of target date funds. If the past performance of the asset classes is a useful guide, the probability that performance will be worse for a high fixed stock allocation is not only small but any underperformance is likely to be relatively modest.

Determining the "glide path" for target-date funds (pp. 113–128)

Brian Boscaljon

On June 16, 2010, the SEC proposed new guidelines for target date funds to follow regarding the explanation of glide paths. This paper presents a model that determines a "glide path" for individuals and target date funds. At some point in time individuals with diminishing human capital are no longer primarily concerned with maximizing wealth. Rather, their primary goal is to obtain a target retirement wealth level to sustain a constant level of consumption during retirement. A critical wealth level is defined that combined with a retirement goal provide a rational approach for reducing risky assets as an individual approaches retirement.

Are mutual fund managers selecting the right benchmark index? (pp. 129–143)

Bruce A. Costa[a], Keith Jakob[b,*]

In this paper, we determine index suitability for mutual funds that specify the S&P 500 as their performance benchmark. Using a four-factor model, we calculate factor loadings for mutual funds and their benchmark index and measure deviations with respect to the risk factors in the model. We sort the funds into growth and value subsets. By comparing each fund with the appropriate growth or value index, we show that the inferences regarding abnormal fund performance change dramatically. Our results indicate that fine tuning of abnormal performance measurement can significantly alter inferences regarding the fund manager's contribution to mutual fund performance. Using this methodology, investors and academics can more accurately assess mutual fund manager performance relative to an appropriate benchmark, regardless of the target index selected by the management of the mutual fund.

ETF trading strategies to enhance client wealth maximization (pp. 145–163)

James A. DiLellio, Darrol J. Stanley

This study examines the performance of pragmatic ETF-only investment strategies published either in an investment newsletter, blog, or are otherwise available through investment advisories. Our objective is to determine if ETF-only strategies can outperform either the S&P 500 or more representative benchmarks on an absolute and/or risk-adjusted basis. We surveyed a number of strategies and analyzed a subset that supported a five-year price history, including both trading commissions and bid-ask spread costs. Our findings show that while a majority of strategies beat the S&P 500 and a representative benchmark, weak statistical outperformance persisted in a smaller fraction of the sample.

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Consumers' insurance literacy: evidence from survey data (pp. 165–179)

Sharon Tennyson

This study analyzes data from a survey developed and fielded by the author to assess consumers' insurance literacy, measured by the score on a 10-question quiz about insurance. The results show that consumers' insurance literacy is relatively low. There is significant variation in literacy by demographic characteristics, but in multivariate analysis the most significant correlates of literacy are measures of financial education and interest in personal finance. Insurance literacy is also found to be related to consumers' confidence in insurance decision-making and to the insurance information sources preferred by consumers. Consumers who prefer informal sources of information such as family and friends have significantly lower insurance literacy than others.

The impact of family relationships and financial education on financial risk tolerance (pp. 181–193)

Kenneth Ryack

This study explores how family relationships and financial education impact financial risk tolerance using a sample of college freshmen and their parents. No significant relationship is found between the financial risk tolerance of parents and their children. However, husbands are significantly more risk tolerant than their wives. There is also a strong correlation between the risk tolerance of the spouses, after controlling for gender, income, and education. In addition, college students who had some financial education in high school are found to be more risk tolerant, especially when they played a stock market game as part of a course.

Entry-level financial planning practice analysis: preparing students to hit the ground running (pp.1 95–216)

John R. Salter, Vickie L. Hampton, Danielle Winchester, Deena B. Katz, Harold R. Evensky

A survey of financial planning professionals was conducted to determine the level of expertise and importance of financial planning topics desired by employers of entry-level graduates of financial planning degreed programs. Based on the 89 topics of the 2004 Topic List for CFP Certification Examination plus 12 other skills and qualities, a basis for financial planning curriculum design in higher education is presented.

Do commissions level the playing field for female producers in the financial services industry? (pp. 217–236)

Karen Eilers Lahey, Mary Quist-Newins

Producers in the financial services industry have recently included a greater percentage of women in this traditionally male dominated business. The focus of this study is an examination of potential differences by gender and the gross and net earnings achieved by individuals in a field that is primarily compensated by commission. Results of both logistic and ordinary least square regressions show that there are differences by gender in demographic characteristics, earnings, professional designations, business mix, and opinions on factors contributing to and detracting from success.

Content analysis of *Financial Services Review* (pp. 237–251)

Sherman D. Hanna, HoJun Ji, Jonghee Lee, Jiyeon Son,Jodi Letkiewicz, HanNa Lim, Lishu Zhang

We conduct a content analysis of all regular articles in Volumes 1–18 of *Financial Services Review* and report distribution of articles by keywords, JEL classification codes, topics, research approaches, datasets, statistical methods, and authors. We also report the most influential articles and authors based on Google Scholar citations. Comparing article topics to *Certified Financial Planner* (CFP®) Exam topics, we find a mismatch between distribution of article topics and the weights of the topics on CFP® Exam, with the majority of article topics being *investments*, while *estate planning* and *insurance* are under-represented relative to their topic weights on the CFP® Exam.

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Overconfidence in financial planners (pp. 253–263)

David M. Cordell, Ph.D., CFA, CFP, CLU, Rachel Smith, Ph.D., Andy Terry, Ph.D., CFA, CPA

Possessing limited knowledge can sometimes cause overconfidence in one's judgment and ability. This limited knowledge creates a "dual burden" because not knowing what we do not know robs us of the ability to recognize it. This research examines the dual burden phenomena by comparing two groups of financial professionals, one group that has earned one certification with another group that has earned the first certification plus a second certification that requires greater depth of knowledge in a specific area, implying greater skill. We find that financial professionals in the less skilled group are actually more confident in their investment and portfolio management skills than those in the more skilled group.

The role of the equity risk premium in the shortfall risk of target-date funds (pp. 265–284)

Max B. Kalman

Target-date mutual funds are unique because the fund manager is expected to maintain the most efficient allocation for the investor in different investment climates. Using a bootstrap simulation with forward-looking equity risk premiums, we illustrate that a 50/50 stock/bond portfolio will run out of money less frequently than a target-date fund if future stock returns replicate past stock returns. When we introduce equity risk premium adjustments, a portfolio with a greater weight in bonds still outperforms a target-date fund. This analysis suggests that these funds may need to reconsider their asset allocation strategies irrespective of market conditions.

Do mutual fund managers adjust cost structure in response to financial shocks? (pp. 285–302)

Nancy Lottridge Anderson, Michael J. Highfield

Many mutual funds pay for the privilege to list on no-transaction fee (NTF) supermarkets, eliminating transaction costs for the shareholder, but evidence suggests this cost is directly related to expense ratios. This study investigates NTF participation of 44,556 unique mutual funds over the global financial meltdown period of 2005–2009 and confirms that NTF participation leads to higher expense ratios. The evidence also shows that continued participation in the NTF program during this period of negative financial shocks is based on the fund's ability to offset the cost of participation by maintaining a high expense ratio or increasing the expense ratio.

Asset allocation, human capital, and the demand to hold life insurance in retirement (pp. 303–325)

Patrick Collins, Ph.D., CLU, CFA, Huy D. Lam, CFA

Much research has been done on the topic of asset allocation, human capital, and life insurance demand. Some researchers attempt to explain existing patterns of each within U.S. households; others propose optimal amounts of insurance and investment given a wide variety of life-cycle assumptions. We take a case by case approach to (1) warn against the dangers of applying general rules of thumb in the investment decision making process, and (2) to demonstrate how financial planners can use simulation based risk models to help investors answer the asset allocation question and the demand to hold life insurance question simultaneously.

Assessing the effectiveness of lifecycle (target-date) funds during the accumulation phase (pp. 327–341)

John J. Spitzer, Sandeep Singh

Using bootstrap simulations, asset allocations that mimic real-world lifecycle fund behavior are shown to have lower accumulation efficiency than several available alternatives. The alternatives include fixed stock/bond allocation with 80% or more in stocks and a set of adaptive strategies that attempt to protect gains against catastrophic loss. It seems that during the accumulation phase, lifecycle funds are not as safe, reliable, or effective as implied.