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The influence of positive psychological factors on small business owners' retirement planning activities (pp. 1–18)

Jill B. McCullough, D.M., CFP

This analysis studies the influence of certain behavioral characteristics on small business owners' retirement planning preparation. In the proposed model, an owner's retirement goal clarity is hypothesized to mediate the relationship between the level of his retirement planning activities and three behavioral factors: engagement, satisfaction, and future time perspective. Survey responses from business owners were analyzed using structural equation modeling. Results suggest that owners who are engaged by their businesses and have a "live for today" attitude are less motivated to plan for retirement. A sense of satisfaction with the business, however, shows positive influences on retirement planning motivation. © 2012 Academy of Financial Services. All rights reserved.

Adding "value" to sustainable post-retirement portfolios (pp. 19–33)

Neeraj J. Gupta, Ph.D., CFA, Robert Pavlik, Ph.D., Wonhi Synn, Ph.D.

Balanced mutual funds, long used in individual retirement plans, have increased in popularity in recent years, partly because they are one of three qualified default investment alternatives in employer sponsored retirement plans. Using mean-reverting valuation metrics, we design semi-passive balanced fund portfolios with significantly lower shortfall rates and higher remaining balances than those found in studies like Bengen (1994) and Spitzer and Singh (2008). The results from our study, using rolling periods and bootstrapping simulation methods, indicate that our valuation-based portfolios unambiguously outperform both conventional balanced funds and target-date funds, and that they should be included as additional offerings in retirement plans. © 2012 Academy of Financial Services. All rights reserved.

Random diversification over time: The case of five European countries surrounding the Euro introduction (pp. 35–50)

Emiliano Giudici Axel Grossmann

This article adds to the financial literacy of active individual investors who restrict themselves to a limited number of securities. Using monthly observations and a sample size of up to 5,177 stocks from five major European equity

markets, this study provides evidence that the marginal benefit of adding a random stock to a portfolio is time varying. Moreover, for small portfolios, the marginal diversification benefits are less pronounced during times of high volatility than during periods of low volatility. Further, while we show that the relative risk of European equity markets has increased after the introduction of the Euro, our study demonstrates that in the post-Euro period a smaller portfolio size is necessary to achieve the same percentage average relative risk reduction than in the pre-Euro period. The highest average relative risk reductions are obtained in the larger equity markets, where a random portfolio of 15 stocks yields an average relative risk reduction of close to 50% of a two-stock portfolio. Our study implies that most individual investors, who enjoy direct investing and, hence, restrict themselves to invest in a small number of securities to reduce transactions cost, may not be as
irrational and underdiversified as commonly thought.

United States-based international mutual funds: Performance and persistence (pp. 51–61)

Yuhong Fan, H. Lon Addams

This study examines market behavior of U.S.-based international mutual funds that invest solely in the international equity markets from 2005 to 2009. With a reputation of high expense ratio, these funds outperform the stock market indices; and their performances can be explained by fund characteristics, such as size, turnover ratio, and beta. Funds are categorized as winners or losers based on their relative performance in the category. The probability of winner funds becoming loser funds or vice versa is close to 50%. The post one- to three-year annualized returns for winner funds and loser funds are very similar. Thus, the relative performance of one fund to another appears more like a random walk than a persistent trend.

Long term performance of leveraged ETFs (pp. 63–80)

Lei Lu, Jun Wang, and Ge Zhang

In this article, we study leveraged ETFs, in particular, Ultra ETFs and UltraShort ETFs from the ProShares family. These Ultra (UltraShort) ETFs are designed to provide twice (twice the opposite) of the performance of the benchmark on a daily basis. We focus on the relation between long term performance of leveraged ETFs and benchmarks. Our results show that over holding periods no greater than one month, an investor can safely assume that the Ultra (UltraShort) ETF would provide twice the return (twice the negative return) of the underlying benchmark. Over the holding period of one quarter, the UltraShort ETFs can deviate from twice the negative returns of the benchmark. For Ultra ETFs, this deviation occurs when the holding period is one year. Finally, we show that the long term performance of the leveraged ETFs is negatively impacted by the quadratic variation and the auto-variation during the period, with auto-variation being the more dominant factor.

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Compensation and client wealth among U.S. investment advisors (pp. 81–94)

Lukas R. Dean, Michael S. Finke

This study uses disclosure data from 7,043 Registered Investment Advisors (RIAs) in the United States to examine differences in client wealth by type of compensation. Results suggest that firms charging commissions and hourly fees have a higher proportion of low net worth clients. Wealthier clients are more likely to be charged performance-based fees and fees based on assets under management. RIA firms that charge commissions are more likely to provide financial planning services in addition to investment advice. Results suggest that policy restricting compensation may impact the provision of advising services to average investors.

Virtual financial planners: Product, market, and challenges (pp. 95–129)

Emery A. Trahan, Lawrence J. Gitman, Michael D. Trevino

In today's complex financial and economic environment, individuals are exhibiting an increasing need for personal financial services. The current environment may turn some clients who use a financial planner into do-it-yourself consumers. In this article, we provide an analysis of online financial planning industry trends. We examine the demographic profile of the target market for online financial planning software and determine the target market's perceptions, needs, and motivations regarding financial planning services. Our results suggest that there is a potential market for virtual financial planning tools. Acceptance of these tools will depend on pricing, provider reputation, and features. These results should be helpful to individuals seeking new forms of delivery for comprehensive personal financial planning services and to professionals interested in providing these services in a changing marketplace.

Defining and measuring risk capacity (pp. 131–148)

Shawn Brayman, B.S., MES Ch.FP

This paper provides a definition of risk capacity and the underlying variables that contribute to it— specifically the ability for the client to adjust goals; revenues from external sources like pensions; and the downside flexibility of the investment portfolio based on withdrawal strategies and portfolio construction. This paper proposes a specific metric to the measure risk capacity as opposed to more qualitative approaches. The metric considers not only success/failure in achieving goals and terminal wealth, but looks at the frequency of shortfalls and the depth of any gaps. Using Monte Carlo simulations the proposed metric is then tested against various scenarios and illustrations using portfolios, annuities, GMWBs with adjusted returns, inflation and mortality assumptions.

Empirical analysis of ETF intraday trading (pp. 149–176)

Mingsheng Li, Dan Klein, Xin Zhao

We investigate the trading of benchmark Exchange traded funds (ETFs), leveraged ETFs, and leveraged inverse ETFs that are matched based on their tracking index or sector. We find that ETF trading is very active and average daily trading volume for the most active ETF is more than $25 billion during the period of March 2007 to December 2009. The daily turnover ratio of leveraged and leveraged inverse ETFs are about four to six times the turnover ratio of the benchmark ETFs on average, and spreads and price volatility of the leveraged and leveraged inverse ETFs are also significantly larger than those of the benchmark ETFs. Trading volume and turnover ratio of all ETFs increased significantly during and after the financial crisis and the active trading is further enhanced when the price movement of benchmark ETFs is large. We also find that small trades dominate trading of all ETFs, and yet they do not play an important role in daily price movements. In addition, we find a U-shaped and an L-shaped intraday pattern for trading volume and return volatility, respectively. These empirical results are important for individual investors, especially those who do not have sophisticated trading experience and lack resources for collecting and processing private information.

The impact of housing on a homeowner's investment portfolio (pp. 177–194)

Chen Y. Wu, Vivek K. Pandey

We examine the inflation hedging and portfolio enhancing properties of residential real estate that makes up a significant part of the individual homeowner-investor's investment portfolio. Using 22 S&P/Case-Shiller city-level and composite indices, we show that residential real estate is at best a modest hedge against inflation. Adding residential real estate can potentially enhance the mean variance efficiency of portfolios made up of financial assets such as stocks and bonds. However, to take advantage of the diversification benefits of residential real estate, homeowner-investors must rebalance their portfolios periodically, which may not always be a practically feasible option.

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The economic benefits of personal financial planning: An empirical analysis (pp. 195–208)

Thomas Warschauer, Ph.D., CFP, Donald Sciglimpaglia, Ph.D.

Prior research has attempted to value the component services that may be included in a personal financial plan on a theoretical level. This research attempts to measure how those component services are actually valued by consumers based upon a national survey of consumers. It clearly shows that the various financial planning services are valued quite differently by consumers as a whole. In addition, these services are valued differently by different consumer groups. The article concludes that these finding could be used to tailor the services planning firms provide and those they emphasize in their marketing efforts.

Financial advice and trust (pp. 209–226)

Marie-Eve Lachance, Ning Tang

This article exploits new questions in the National Financial Capability Study to examine the determinants of trust in financial professionals and the impact of trust on the use of five types of financial advice. We find that trust declines with age and increases with willingness to take investment risk. Having some financial literacy increases trust, but having too much decreases it. Controlling for financial exposure, trust and cost are the two most important determinants of financial advice-seeking behavior. Saving advice is most affected with use increasing from 17% for the least trusting group to 44% for the most trusting group.

Direct stock purchase plans using batch trades: Do investors buy high and sell low? (pp. 227–237)

Raymond M. Johnson, Ph.D., Joseph A. Newman, Ph.D.

Direct stock purchase plans offer low trading costs. However, some plans batch orders and execute trades once per week. If prices spike during batch buying, or plummet during batch selling, low trading costs may be offset by unfavorable prices. This study examines daily high and low stock prices for companies whose plans require batch trades once per week. Results suggest that not a single company has higher or lower stock prices on any trade day of the week. Therefore, investors can use these plans without concern that they will buy high and sell low.

Why do mutual fund expenses matter? (pp. 239–257)

David Nanigian

This article develops a theory that the intensity of investor monitoring explains much of the relationship between expenses and performance. I instrument for investor monitoring through the use of minimum initial purchase data to test the theory. I find that the highly publicized negative expense-performance relationship disappears among funds that cater to a sophisticated clientele of investors. I find that mainstream investors can use the existence of a share class with a high minimum initial purchase requirement as a signal of competitiveness. My results highlight the important influence investor monitoring has on the competitiveness of financial products.

Mutual fund performance attribution: 1994–2005 (pp. 259–273)

LeRoy D. Brooks[a], Gary E. Porter

We examine the performance of nearly 2000 actively managed equity funds using attribution analysis, a process commonly used by mutual funds to isolate management contributions from the

sector allocation and stock selection components of fund returns. For the period 1994 through 2005 we show that, on average, potential gains from sector allocation were offset by poor stock selection.
However, equity managers excelled at sector allocation and stock selection during the bear market of 2000–2002. Over the 12-year sample period, returns from actively managed funds dominated returns from passive portfolios with less risk, primarily because of their performance during the bear market.

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Insuring defined-benefit plan value: An examination of the survivor benefit plan (SBP) decision (pp. 275–290)

Kevin Davis, Steve P. Fraser

The U.S. Military Survivor Benefit Plan (SBP) allows military retirees to protect a portion of their retirement income stream. Specifically, retirees can pay a pre-tax premium from their retirement income to insure up to 55% of the retirement income stream. Two recent changes have dramatically improved the value of the plan. In this study, we construct a Monte Carlo simulation model to describe the distributions and implied discount rate for SBP participants. Our model demonstrates that the program is quite lucrative for most male retirees. In contrast, the program is less rewarding for female retirees, especially when they are somewhat younger than their spouse. Retirees and their financial planners can use our results to make more informed retirement planning decisions.

The demand for financial professionals' advice: The role of financial knowledge, satisfaction, and confidence (pp. 291–305)

Cliff A. Robb,, Patryk Babiarz, Ann Woodyard

Using a large, nationally representative sample provided by the Financial Industry Regulatory Authority (FINRA), individuals' use of professional planning advice is analyzed in the context of personal financial knowledge (objective and subjective), financial satisfaction, risk tolerance, and selected sociodemographic variables. The results indicate that different characteristics are associated with individuals using different types of financial advice (e.g., debt counseling vs. investment planning, or tax assistance). In general, financial knowledge (both objective and subjective) and satisfaction are positively related to using any type of financial advice, and specifically with using advice related to investing and saving, mortgage decisions, insurance, and tax planning. In contrast, knowledge and satisfaction are inversely related to the use of debt counseling. Other interesting relationships are noted among the demographic variables of interest, and implications for planners and policymakers are discussed.

Financial advice: A substitute for financial literacy? (pp. 307–322)

J. Michael Collins

A lack of financial literacy can hamper the ability of individuals to make well-informed financial decisions. For people who exhibit problems with financial decision making, financial advice has the potential to serve as a substitute for financial knowledge and capability. However, data from the 2009 FINRA Financial Capability Survey indicate that advice more often serves as a complement to, rather than a substitute for, financial capability: individuals with higher incomes, educational attainment, and levels of financial literacy are most likely to receive financial advice.

Investigating the role of *Financial Services Review* at the ntersection of finance and financial planning with contributor-based interjournal communication analysis (pp. 323–342)

Steven L. Beach, Abhay Kaushik

Financial Services Review (*FSR*) publishes research that meets the needs of individual investors. This focus places *FSR* at the intersection of research in finance and research in financial planning. We document the publication records of contributors to *FSR* and other financial planning journals to provide evidence on *FSR*'s efforts to fulfill its obligation to individual investors. Results show that *FSR* strategically assists finance researchers who publish in the area of financial planning to advance their research agendas. Finance academics at research and masters level universities and seeking tenure find *FSR* to be a prime outlet for their financial planning research.

An empirical examination of the performance of real estate mutual funds 1990–2008 (pp. 343–358)

Abhay Kaushik, Anita K. Pennathur

Empirical support for the evidence of over- or under-performance in real estate mutual funds is mixed. Using a sample covering the period 1990–2008, we provide a thorough investigation of the performance of real estate fund managers, including an examination of the impact of the down-market of 2007–2008. Our initial results show no over-performance for the overall period of 1990–2008; however, after accounting for the down-market period of 2007–2008, fund managers significantly out-perform the market for the 1990–2006 period. Thus, our results show that mutual fund investors can earn superior returns by investing in real estate mutual funds. Further, our cross-sectional results show that investors can earn higher returns by investing in funds that are large in size and rebalanced more frequently.