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Does a relationship with a financial service professional overcome a client's sense of not being in control of achieving their goals? (pp. 1–23)

Danielle D. Winchester, Sandra J. Huston

Although considerable evidence suggests that setting goals increases the odds of behavior changes that lead to goal attainment, less research has been conducted examining what underlying traits allow some to successfully attain their goals when others do not. This study, using the Theory of Planned Behavior, examines the affects of individual control beliefs on financial goal progress. Findings suggest that low control beliefs are significantly associated with less financial-goal progress; however, the receipt of expert financial advice can reduce this negative effect and result in higher levels of goal progress than that of individuals with high control beliefs.

Low-income employees: the relationship between information from formal advisors and financial behaviors (pp. 25–43)

Crystal R. Hudson, Lance Palmer

This study investigates the financial literacy of low-income employees, by examining their financial behaviors. Thus, researchers examine the effect that information from formal advisors has on the financial behaviors of low-income employees. In this study, formal advisors include financial plan-ners, bankers, brokers, employers, accountants, insurance agents, and lawyers. Using data from the 2010 Survey of Consumer Finances, researchers find a significant and positive relationship between the use of information from formal advisors and low-income employees' positive financial behaviors. In other words, low-income employees who use information from formal advisors exhibit better financial behaviors than those who do not.

Downside risk: what the consumer sentiment index reveals (pp. 54–61)

Mark A. Johnson, Atsuyuki Naka

This article examines the ability of consumer sentiment for different age groups to forecast short-term as well as long-term equity returns. Using a long-horizon asymmetric response regression format, we show that negative changes in sentiment have a greater influence on stock returns than positive changes in sentiment. Our findings are supportive of the prospect theory. However, we observe that younger individuals appear to be less risk-averse than older individuals. We provide evidence that reminds individual investors and financial planners that risk is an important consider-ation when investing, and that demographic characteristics matter when determining appropriate investing approaches and risk tolerance.

Investor preference for skewness and the incubation of mutual funds(pp. 63–75)

Philip Gibson, Michael Finke

Mutual fund companies market the strong performance of funds created through incubation to gain the attention of investors who value recent returns. This creates an incentive for fund families to select highly skewed securities because extreme performance during incubation will increase the likelihood that some funds will outperform before they are sold to the public. Although incubation is as an innovative fund promotion technique, it may harm investors by creating the perception that random prior returns are a signal of fund quality. We find that net new money flow increases with an incubated fund's skewness. After incubated funds are sold to the public, skewed funds attract more investor dollars and their average performance declines. These results suggest that the use of skewed securities during incubation is an effective method for increasing demand, but may be a poor quality signal of future performance.

Performance and persistence of performance of healthcare mutual funds (pp. 77–91)

Abhay Kaushik,, Lynn K. Saubert, R.Wayne Saubert

This study analyzes 115 actively managed domestic healthcare mutual funds over the period 1/2000–12/2011. Findings of this study show that, on average, healthcare mutual funds outperform the passive index by roughly 2.97% per year after controlling for the market risk premium, growth and size premiums, and momentum effects. Further, this study documents that the abnormal over- and under-performance does not persist over subsequent periods. In other words, under- and over-performances are mean reverting.

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Performance of alternative mutual funds: The average investor's hedge fund (pp. 93–121)

Srinidhi Kanuri, Robert W. McLeod

Alternative Mutual Funds (AMFs) provide the individual investor with the opportunity to invest in funds that follow strategies similar to those of hedge funds and seek returns uncorrelated with the market. Financial planners, advisors, and investors need to be aware of how well AMFs deliever absolute or positive returns regardless of market conditions and their relatively high expense ratios. In this article we analyze the performance of AMFs for the period January 1998 through December 2011 using Carhart four-factor model and the Fung-Hsieh seven-factor model. Our results indicate that most AMFs have not been able to create any value for their investors over the period of our study. Furthermore, the performance of these funds was even worse during the recent financial crisis.

Portfolio performance with inverse and leveraged ETFs (pp. 123–149)

James A. DiLellio, Rick Hesse, Darrol J. Stanley

Turbulent economic and financial times require investors and financial planners to investigate new ways to handle the goal of wealth maximization. This article investigates passive investment strategies that use inverse or leveraged equity exchanged-traded funds (ETFs) in their asset allocation, and quantifies the long-term impact on portfolio performance for the purpose of improving the risk-reward tradeoff. Monte Carlo simulations are used, drawing samples from distributions created by two distinct time periods of historical daily market returns. The findings suggest that, whereas these products are generally not recommended within long-term passive investment strategies, potential diversification benefits exist, dependent on the behavior of equity and debt markets. These findings could materially alter long-term passive portfolio construction methods currently in use by financial planners and individual investors seeking potential diversification benefits using ETFs.

The performance of the faith and ethical investment products: A comparison before and after the 2008 meltdown (pp. 151–167)

Francisca M. Beer, James P. Estes, Charlotte Deshayes

This article explores the risk and return characteristics of socially responsible investment and faith-based mutual funds before and after the market crisis of 2008. Findings show a high level of correlation between the indices

studied as well as a higher volatility than the S&P 500. We also find a significant shift in the mix of performance and volatility of these funds before and after the crash of 2008. This is an important consideration for both planners and investors in making an informed decision that is tempered by both the intensity of their social or faith based investment preferences and resultant risk and return on those investments.

Saving for retirement while having more nights with peaceful sleep: Comparison of lifecycle and lifestyle strategies from expected utility perspective (pp. 169–188)

Rosita P. Chang, David Hunter, Qianqiu Liu, Helen Saar

We evaluate the fit of target-date funds (TDFs) as the main retirement savings instrument for the utility-maximizing investor who becomes more risk averse as she gets older. Using bootstrapping simulations, we show that TDFs can provide higher expected utility than the alternative lifestyle strategies. With loss aversion incorporated in the model, we still find that the optimal lifecycle strategy over time leads to higher expected utility than the best lifestyle strategy. Therefore, TDFs are preferable to the utility-maximizing investor. However, lifecycle strategies are not one-size-fits-all solution and investor’s risk tolerance has to be considered when selecting TDF funds.

The perpetual growth model and the cost of computational efficiency: Rounding errors or wild distortions? (pp. 189–206)

Morris G. Danielson, Jean L. Heck

The constant growth model (Gordon, 1962) plays an important role in the stock selection process for individual investors, in part, because of its computational simplicity. However, value estimates from the model can be highly dependent on cash flows to be received in the distant future. If future events might constrain a firm’s growth or lead to its demise, the unadjusted Gordon model can substantially overstate value. Because the model is less likely to misstate value for low-growth, high-payout firms, the ironic implication is that the model is most useful when its ability to value growth is needed least.

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What determines risk tolerance?□ (pp. 207–213)

Michael Guillemette, David Nanigian

It is important for financial planners to understand what drives risk tolerance as it directly influences the portfolio allocation preference of clients. We hypothesize that habit formation, loss aversion and investor sentiment account for significant variation in risk tolerance. We analyze average monthly scores from a widely used risk tolerance questionnaire. We find that the habit formation, loss aversion, and sentiment proxies account for □1.06%, 38.51%, and 13.21% of the variation in average monthly risk tolerance, respectively. Habit formation did not account for additional variation in average monthly risk tolerance when controlling for loss aversion and sentiment. © 2014 Academy of Financial Services. All rights reserved.

Structured certificates of deposit: Introduction and valuation (pp. 219–237)

Geng Deng, Tim Dulaney, Tim Husson, Craig McCann

This article examines the properties and valuation of market-linked certificates of deposit (struc- tured CDs). Structured CDs are similar to structured products— debt securities with payoffs linked to market indexes— but while structured products have garnered significant interest in both the financial media and in the academic literature, structured CDs have received relatively little attention. We review the market for structured CDs in the United States and provide valuations for several common product types. Using our methodology, we find significant mispricing of several common types of structured CDs across multiple issuers, which is similar in magnitude to the well-documented mispricing in the structured products market. In particular, we estimate that structured CDs are typically worth □93% of the value of a contemporaneously issued fixed-rate CD. These results suggest that unsophisticated investors may not understand the value, risks, and subtleties of these ostensibly conservative investments. © 2014 Academy of Financial Services. All rights reserved.

Using the new portability election of deceased spouses: A pedagogical example (pp. 239–248)

De'Arno De'Armond, Darlene Pulliam, Robin Patterson

The United States has a unified system that taxes transfers of property during an individual's lifetime (gifts) and property transferred as a result of the individual's death. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the Act) contains a provision that will allow the unused portion of a decedent's exclusion (taxable estate protected by the unified credit) to be used upon the subsequent death of the surviving spouse. The portability election is simple for situations where it appears the surviving spouse will not remarry,

however, becomes much more complicated if the surviving spouse should remarry.

Does active management work? Evidence from equity sector funds

(pp. 249–271)

Crystal Y. Lin

This study presents considerable evidence that equity sector mutual funds, the nine Fidelity Select Portfolios here, have provided better after-expense returns against broader market ETF, SPY, and their peer sector ETFs, the nine Select Sector SPDR Funds, over the sample period 1999–2010. Not only do they achieve higher nominal returns over the 12 years, except for few sector mutual funds, some of the funds also generate higher risk-adjusted returns measured by Sharpe Ratio and □ from various asset pricing models. More important, none of the sector mutual funds generates a significant negative □ for the sample period no matter that asset pricing model is used. The results suggest that actively managed sector funds be considered by individual investors and/or their financial planners for mutual fund selection.

Investor profiles: Meaningful differences in women's use of investment advice? (pp. 273–286)

Kathryn Simms

Women in the United States face numerous financial challenges: They typically earn less than men do; they have greater probabilities of living in poverty; and they need substantial retirement funds, given their average longevity. Consequently, a comprehensive understanding of how women use investment advice to remedy these challenges is vital. However, the literature is largely mute on this issue. This study helps to fill this gap in the literature by evaluating two profiles of female investors through cluster analysis and logistic regression conducted on a large, nationally representative database collected recently. Predictors of seeking investment advice vary considerably across profiles.

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Boomers' life insurance adequacy pre & post the 2008 financial crisis (pp. 287–304)

Janine K. Scott, John Gilliam

The baby boomers represent a large percentage of the U.S. population and their preparation for retirement, or lack thereof, can affect the economy at large. In light of the 2008 financial crisis, boomer households may be delaying retirement, choosing to work longer. Using the 2004 and 2010 Survey of Consumer Finance, logistic regression analyses are used to examine life insurance adequacy among boomers before and after the financial crisis of 2008. We find a significant difference in 2010 between the baby boomers and the senior generation in life insurance adequacy. Variables related to net worth, such as income, marital status, and self-insurability, were significant predictors of life insurance adequacy. Given greater life insurance adequacy among those with higher income, increasing group term insurance may help mid to low income households. Further implications to practitioners, agents, and educators are discussed.

Financial adviser background checks□ (pp. 305-324)

Bhanu Balasubramnian, Eric R. Brisker, Suzanne Gradisher

Using the 2009 National Financial Capability Survey, we identify demographic characteristics associated with financial adviser users who conduct adviser background checks and/or consider more than one adviser before making a choice, and if these activities improve their trust in financial advisers. We find that very few financial adviser users check backgrounds, but there is a positive relationship between adviser background checks and trust levels. Overall, these findings indicate that having a reliable background check system in place, allowing financial consumers to conduct adviser background checks in an easy and efficient manner, will help improve trust in financial advisers.

Wealth and credit compliance: does economic literacy matter?
(pp. 325–339)

Celeste Varum, Alla Kolyban

The purpose of this work is to empirically examine the influence of economic literacy upon individuals' over-indebtedness and households' wealth. It may be argued that the lack of economic- financial knowledge may have detrimental consequences, in particular reflected in higher exposure to credit and financial risk. There is scarce

literature testing the importance of economic-financial literacy for individuals' over-indebtedness and household wealth. This article provides empirical evidence on the importance of financial literacy, for both individuals' over-indebtedness and household wealth, exploring the case of Portugal, a country about which there is scant empirical evidence on these matters. © 2014 Academy of Financial Services. All rights reserved.

Choosing between value and growth in mutual fund investing (pp. 341–359)

Glenn Pettengill, George Chang, C. James Hueng

This article informs investors on the choice between value and growth mutual funds. The well- established value premium demonstrates that, on average, value securities outperform growth secu- rities, suggesting that an investor may be wise to choose value funds. Extant studies, however, suggest that growth funds outperform value funds. We show that value funds indeed outperform growth funds especially in terms of lower realized risk and higher realized terminal wealth, leading us to recom- mend value funds over growth funds. We argue that previous findings result from a bias against value in some multifactor models. © 2014 Academy of Financial Services. All rights reserved.

Low-□B investing with mutual funds (pp. 361–383)

David Nanigian

Contrary to the predictions of CAPM, empirical research has shown that investing in low-beta stocks can improve the mean-variance efficiency of an investor's portfolio. Through forming portfo- lios of mutual funds based on beta, I examine whether or not mutual fund investors can capitalize on this puzzle. I find that one investing in a portfolio of funds in the top quintile of beta can improve her □ by a statistically significant 2.9% to 4.9% a year, depending on the asset pricing model specification, by holding a portfolio of funds in the bottom quintile of beta instead. © 2014 Academy of Financial Services. All rights reserved.