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Volume 24 Number 1, 2015

Gender differences in saving behaviors among low- to moderate-income households (pp. 1–13)

Patti J. Fisher, Celia R. Hayhoe, Jean M. Lown

In this study we explore gender differences in saving behaviors among low- to moderate-income households using data collected online from a national sample of low- to moderate-income households (NC1172) and data on similar income single households from the 2010 Survey of Consumer Finances (SCF). Results show that saving behaviors differ by gender. With the NC1172 sample, we find gender differences in the effects of high-risk tolerance and being non-White on the likelihood of being a saver. In the SCF, the presence of other household members affects savings differently for women and men. Educators and counselors can encourage savings among men and women in low- to moderate- income households as a way to reduce financial risk and ensure financial security.

Spread options and risk management: Lognormal versus normal distribution approach (pp. 15–35)

Robert Brooks, Brandon N. Cline

We provide better tools for managing the downside risk related to the spread between the asset portfolio and corresponding liabilities. These tools are particularly applicable for individual investors. We investigate the spread option valuation model where both underlying instruments follow geometric Brownian motion, and one where both underlying instruments are assumed to follow arithmetic Brownian motion. We show that the risk parameters are often materially different. These results are important in practical applications of risk management for individual investors as well as financial institutions. For most personal financial planning applications, one can safely use the simpler arithmetic Brownian motion model.

Minority household size and the life insurance purchase decision (pp. 37–50)

Michael A. Guillemette, M. Monica Hussein, G. Michael Phillips, Terrance K. Martin Jr.

This study uses the 1992–2010 Survey of Consumer Finances to analyze whether the likelihood of life insurance ownership and the face value amount of life insurance changes for minorities as household size changes. We find that the likelihood of life insurance ownership declines for Black and larger Hispanic families as household size increases when controlling for a variety of socioeconomic and demographic variables. There is also a significant decline in the face value amount of term life insurance purchased by Black families as household size rises. We provide possible explanations for these effects and also discuss implications for financial planners.

Home ownership decision in personal finance: some empirical evidence (pp. 51–76)

C. Sherman Cheung, Peter Miu

Despite being one of the most important decisions a household has to make and extensively covered in personal finance textbooks, there is very little empirical guidance as to whether it pays to own a house. We examine this empirical question for households with different risk tolerance. By including home ownership into the general portfolio analysis of financial assets, we demonstrate clearly the interaction effect between financial assets and home ownership. We also offer a compre- hensive analysis of 20 regional housing markets to determine whether the economic case for home ownership varies across regions. For households that decide to rent instead of owning a house, this study offers evidence on the effectiveness of hedging housing consumption risk with investments in real estate investment trusts. © 2015 Academy of Financial Services. All rights reserved.

Do financial networks matter in retirement investment decisions? Evidence from Generation Yers (pp. 77–99)

Yunhyung Chung, Youngkyun Park

Using experimental survey data collected from a sample of Generation Yers, we examine the joint influence of financial literacy and financial networks on individual retirement investment decisions. We find, first, that financial literacy and financial network intensity (the network strength with the financially literate) are positively related to stock allocation. Second, the positive relationship between financial literacy and stock allocation, however, is significant only among those having high financial network intensity. This finding suggests that the positive effects of financial literacy documented in the literature can be limited to only those who have strong networks with the financially literate. © 2015 Academy of Financial Services. All rights reserved.

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Financial literacy and financial behavior: Assessing knowledge and confidence (pp. 101–117)

Colleen Tokar Asaad

This article explores how financial literacy, comprised of both actual financial knowledge and perceived financial confidence, affect financial decisions. Using national survey data from the United States, results indicate that financial confidence is a critical component of financial literacy and is important across all knowledge levels. However, overconfident individuals, or those with high confidence (or self-assessed) knowledge but low actual knowledge, have a higher propensity to engage in risky (costly) financial behaviors. Together, results suggest that financial literacy initiatives should focus not only on factual knowledge, but on helping individuals achieve a healthy dose of confidence. © 2015 Academy of Financial Services. All rights reserved.

Financial knowledge acquisition among the young: The role of financial education, financial experience, and parents' financial experience (pp. 119–137)

Ning Tang, Paula C. Peter

This article explores how financial education, financial experience, and parents' financial experi- ence influence young adults' financial knowledge. We rely on a general model of learning to hypothesize the determinants of financial knowledge acquisition. Using data on 3,597 young adults from a national longitudinal survey, we find that financial education, financial experience, and parents' financial experience all exert a positive impact on young adults' financial knowledge. Moreover, these determinants work interactively. Both individual and parents' financial experience help narrow the gap in financial knowledge caused by lack of financial education. © 2015 Academy of Financial Services. All rights reserved.

Do U.S. households perceive their retirement preparedness realistically? (pp. 139–155)

Kyoung Tae Kim, Sherman D. Hanna

This study examines the divergence between objective and subjective assessment of retirement adequacy, analyzing U.S. households with a full-time worker age 35 to 60 in the 2010 Survey of Consumer Finances. Of those households, 58% have objective inadequacy, and 54% have subjective inadequacy, but only 52% have objective/subjective consistency. Our focus is on households with objective inadequacy, and what factors were related to being an optimist despite having objective retirement inadequacy. A logistic regression shows that households with defined benefit plans and with defined contribution plans are less realistic than those without plans, and as age increases, realism decreases. © 2015 Academy of Financial Services. All rights reserved.

Investment performance of AAII stock screens over diverse markets

(pp. 157–176)

David S. North, Jerry L. Stevens

Individual investors often rely on information services and products to compete with professional investors. To assist in this effort, the American Association of Individual Investors (AAII) offers a variety of screening tools designed to help individuals construct stock portfolios. We extend prior research on AAII screening performance by including more recent investment periods, using more rigorous factor models, and examining both median and mean returns to allow for skewing. Over a period of tumultuous markets with as little as $50,000 to invest, over 30% of the available screens achieved statistically significant excess rates of return unrelated to transaction costs and multifactor risks proposed by efficient market theorists. © 2015 Academy of Financial Services. All rights reserved.

The Grable and Lytton risk-tolerance scale: A 15-year retrospective(pp. 177–192)

Stephen Kuzniak, Abed Rabbani, Wookjae Heo, Jorge Ruiz- Menjivar, John E. Grable

Over a decade ago, Grable and Lytton (1999) developed, tested, and published a financial risk-tolerance scale in *Financial Services Review* that has since been widely used by consumers, financial advisers, and researchers to evaluate a person's willingness to engage in a risky financial behavior. Analysis of data (n □ 160,279) spanning the timeframe 2007 to 2013 provides evidence that the risk-tolerance scale's reliability and validity have remained robust since the scale was first developed. The scale's estimated Cronbach's □ was 0.77 during this time period. Consistent with the literature, high scale scores (representing a greater willingness to take risks) were found to be associated with equity ownership and negatively related to cash and bond holdings. © 2015 Academy of Financial Services. All rights reserved.

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How risky is your retirement income risk model? (pp. 193–216)

Patrick J. Collins, Huy Lam, Josh Stampfli

Adequately sustaining lifetime income is a critical portfolio objective for retired investors. This article provides a brief review of various retirement income modeling approaches including historical back testing, Monte Carlo simulations, and other more advanced risk modeling techniques. Implau- sible assumptions underlying common risk models may mislead investors concerning the risk and return expectations of their retirement investment strategies. We compare risk models, evaluate their credibility, and demonstrate how an oversimplified model may distort the risks retired investors face. Differences in sustainability rates are stark: 4% failure at the low end versus 49% failure at the high end. The article ends with general comments regarding model risk and practitioner investment advice.

The impact of superannuation fund choice legislation and the global financial crisis on Australian retail fund flows (pp. 217–248)

Rakesh Gupta, Thadavillil Jithendranathan

We examine the extent to which cash flows into the Australian superannuation funds are affected by the past performance of the fund, the riskiness of the fund, the choice of superannuation fund legislation, and the global financial crisis. Both retail and wholesale investors base their investment decisions on the past performance of the funds. There is little evidence that the riskiness of the fund returns has any significance effect on the flow of funds. Legislation has resulted in more inflows into managed funds. There is more inflow into managed funds and equity funds since the period of the global financial crisis.

Does it pay to diversify? U.S. vs. international ETFs (pp. 249–270)

Ryan Gibson, David Michayluk, Gerhard Van de Venter

Using data from a survey alliance between Kiplinger's Personal Finance Magazine, PBS's Nightly Business Report, and FinaMetrica, this study explores various demographical and attitudinal factors related to financial risk tolerance. Investigating risk tolerance scores of more than 2,000 individuals immediately after the 2008 Global Financial Crisis, we find a positive relationship between risk tolerance and income, investment knowledge and positive stock market expectations. Risk tolerance is found to be lower for females, older individuals, those that currently use a financial advisor and individuals that perceive the stock market to be riskier than two years before.

Return-enhancing strategies with international ETFs: Exploiting the turn-of-the-month effect (pp. 271–288)

Haiwei Chen, Sang Heon Shin, Xu Sun

We show that the average return over the four-day period surrounding the turn of the month is significantly positive in eight out of the nine international exchange-traded funds (ETFs). The strategy of buying-and-holding an ETF during turn-of-the-month (TOM) period and switching to holding T-bills during non-TOM period produces significantly positive monthly average returns. This ETF- T-bills switching strategy also has the lowest risk and highest Sharpe ratio and Sortino ratio than the traditional strategy of buying-and-holding either an index fund or an ETF. Investors pursuing this switching strategy generate a terminal value twice larger than the next best strategy of buying-and- holding an ETF.

The performance and market timing ability of Chinese mutual funds

(pp. 289–311)

Wei He, Bolong Cao, H. Kent Baker

We examine the performance and market timing ability of actively managed Chinese stock mutual funds and investigate how fund characteristics and fund flows relate to performance and market timing ability. Based on daily return data and several four-factor models, only about 7.5% of these funds have statistically significant risk-adjusted abnormal returns and even fewer demonstrate market timing ability. After controlling for fund size, management fees, average amount, and volatility of fund flows, older funds show higher Sharpe ratios. Our evidence also reveals the volatility of fund flows has an inverted-U shape relationship with fund performance.

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Anchoring, affect, and efficiency of sports gaming markets around playoff positioning (pp. 313–329)

Kevin Krieger, R. Daniel Pace, Nicholas Clarke, Clay Girdner

We consider the wagering market of National Football League (NFL) and National Basketball Association (NBA) games when participating teams have secured playoff positions. We use both the opening and closing lines (analogous to asset prices) of spread bets to examine if potential “letdown” effects, either psychologically or strategically, are priced. Results demonstrate that the initial opening line consistently provides a profitable strategy for those betting against teams that have clinched positions in the post-season. By the close of the betting cycle, closing lines move in the expected direction as the market partially prices the letdown. Many closing lines tighten to the extent that, after paying commissions, the naïve strategy of betting against clinched teams is less profitable. However, certain wagers, for example betting against NFL teams that have clinched top seeds, are statistically significantly economically profitable after paying commissions. These results support the behavioral finance concepts of anchoring, affect, in addition to lines moving towards efficiency.

The perfect withdrawal amount: A methodology for creating retirement account distribution strategies (pp. 331–357)

E Dante Suarez, Antonio Suarez, Daniel T. Walz

We present a new way to develop withdrawal strategies from retirement portfolios. It is derived analytically, instead of from empirical testing, and it iterates always in the same manner. It is based on a new measure we develop, the Perfect Withdrawal Amount, for which we discuss how to construct a probability distribution and how to apply it sequentially. We also derive a new measure of sequencing risk. We present new strategies built with this framework.

A new strategy to guarantee retirement income using TIPS and longevity insurance: A second look (pp. 359–386)

Paul J. Haensly, K. Prakash Pai

Shankar (2009) proposes a new investment strategy for retirees that bundles Treasury Inflation Protected Securities with a deferred annuity to guarantee real annual withdrawal rates of 5% or more with no risk of financial ruin. This strategy addresses three problems that retirees face: longevity risk, inflation risk, and liquidity risk inherent in the purchase of an immediate annuity. In our article, we evaluate the performance of this proposed strategy under realistic assumptions about costs, security design, and markets. In addition, we evaluate how the bequest motive might affect the choice between Shankar's strategy and an immediate annuity.

The time perspective of financial advisors and its effect on their decision-making (pp. 387–410)

Kenneth N. Ryack

Psychological research suggests individuals often display past, present, or future time perspective (TP) biases that impact decision-making. This article examines the TP biases of financial advisors from different backgrounds and whether or not the biases impact client recommendations. Consistent with literature that suggests a link between TP and career choice, advisors are future oriented as a group, regardless of their professional background. However, contrary to prior TP research, the bias does not appear to impact their professional decisions. Instead, the findings are consistent with research that demonstrates psychological biases are mitigated when professional decision makers perform job related tasks.

A further examination of equity indexed annuities (pp. 411–428)

Andy Terry, Erick Elder

Equity indexed annuities (EIAs) are deferred annuities that credit interest according to a formula tied to the performance of an underlying equity index. This research expands previous research, particularly that of Reichenstein (2009, 2011), by examining the distribution of returns that could have been created on a rolling monthly basis since 1928 for 11 through 15-year investment horizons. Second, we examine investment alternatives that include the options imbedded in EIAs. Third, rather than assuming constant cap rates we allow cap rates to vary with interest rates. We find that for long time horizons the opportunity costs of investing in EIAs is high.