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An Investigation of the Consistency of Financial Advice Offered by Web-Based Sources (pp. 5-18)

Conrad S. Ciccotello, Russell E. Wood

Individuals increasingly rely on web-based sources for financial advice. But does the advice you get depend on the site you visit? Relying on standardized input data from three different family scenarios, we observe that the variation in advice across web-sites increases with client input complexity. Web advice dispersion also differs in magnitude across financial planning domains such as insurance, investments, retirement, income tax, and estate tax. 'Live advisor' financial solutions, however, are not always more consistent than those available on the web. Human advice varies less with client complexity, but in certain planning domains web advice has lower dispersion. The results suggest that client characteristics and planning domains matter in the development of efficient distribution mechanisms for financial advice.

The Value of Retirement Income Streams: The Value of Military Retirement (pp.19-35)

William W. Jennings, William Reichenstein

We examine issues surrounding the value of military retirement income. We then provide estimates of the expected present value of this income stream after taxes for singles, married couples, widows and widowers of military retirees. Finally, we contend that individuals should treat the after- tax present value of military retirement income as a bond in their family portfolio. When so considered, it can dramatically affect the family's asset allocation. Published by Elsevier Science Inc.

A Comparison of State University Defined Benefit and Defined Contribution Pension Plans: A Monte Carlo Simulation (pp.37-44)

Ken Johnston, Shawn Forbes, John Hatem

This paper examines investment risk in comparing defined benefit (DB) and defined contribution (DC) plans by employing a Monte Carlo simulation. Using a bivariate normal distribution, two general types of risk are associated with a DC-plan. The first is that not enough is being earned by an allocation rule to cover DB-plan outflows.

Secondly the portfolio may experience runs of losses that can't be overcome by waiting for a better year because the money runs out. The general result is that higher stock allocations allow the higher earning potential of stocks, even if the losses are occasionally experienced, to accumulate enough wealth to see a DC portfolio match the promised benefits of a DB-plan.

The Decision to Defer: Factors Affecting Employee Deferral Incentives (pp. 45-54)

M. Kabir Hassan, Ph.D., Shari Lawrence, Ph.D.

The purpose of this study is to examine employee participation and contribution incentives among defined contribution retirement plans. Using data from the 1995 Survey of Consumer Finances, probit and tobit analysis indicates no significant relationship between employer contributions and an employee's decision to make contributions into his or her retirement plan. However, of those employees who are contributing to their pension plans, the employer contribution percentage has a significant positive effect on employee contribution rates. Therefore, the findings support our hypothesis of a direct relationship between the average employee deferral percentage and the existence of an employer matching contribution.

Longitudinal Changes in Net Worth by Household Income and Demographic Characteristics for the First Three Waves of the HRS (pp.55-73)

Karen Eilers Lahey, Doseong Kiml

The purpose of this study is to provide an initial examination of the first three waves of the HRS in terms of non-housing net worth by gender, education, race, religion, income, and age. The longitudinal data that is available for a sample of those who are nearing retirement or in retirement allows a picture of their financial condition to be drawn. Statistical analysis indicates that there is a difference in non-housing net worth by demographic characteristics and marital status for each wave of the HRS and between the waves.

Analysis of Investment Choices for Retirement: A New Approach and Perspective (pp.75-86)

Sivarama Krishnan, Shari Lawrence

This paper evaluates deductible individual retirement accounts (IRAs), Roth IRAs, non-deductible IRAs, and open taxable investments using equal initial after-tax investments for the different choices. The concept of a break-even tax rate at the time of withdrawal of funds is used to analyze optimal choice between the deductible IRA and the Roth IRA. The break-even tax rate is seen to be a decreasing function of rate of return on the investment and the investment horizon. Regarding non-deductible IRAs, and open taxable investments, the findings indicate that the non-deductible IRA is the optimal choice for individuals with long investment horizons.

A Reexamination of Tax-Deductible IRAs, Roth IRAs, and 401(k) Investments (pp. 87-100)

Stephen M. Horan, Jeffrey H. Peterson

Choosing among various tax preferred investment vehicles for retirement planning requires individuals or financial planners to make assumptions about how potential tax savings are to be invested. This paper extends the work of previous studies that assume tax savings are invested in vehicles that are either tax-deferred or taxed each year as ordinary income. We assume tax savings are invested in a typical taxable mutual fund that contains implicit tax-deferral characteristics and find that the results are sensitive to these assumptions. We also extend the analysis to examine employer-sponsored 401(k) plans that match some or all of an employee's contributions and find that only modest employer contributions are necessary for 401(k)s to dominate Roth IRAs.

The Fallacy of Cookie Cutter Asset Allocation: Some Evidence from "New York 's College Savings Program" (pp.101-116)

John J. Spitzer, Sandeep Singh

In this paper, we establish why "prefabricated" asset allocation schemes mandated by some education savings programs might be suboptimal. Then, using the New York's College Savings Program as an example, we simulate and then compare end of period wealth accumulated in both a tax preferred but regimented asset allocation plan, and in a nontax protected plan. We find, first, that the longer the child participates in the plan, the greater the benefit. Second, participants in higher tax brackets derive greater benefits; adherence to prespecified asset allocation for low tax bracket investors often results in return loss that overshadows the tax benefit-

Does Loss Aversion Explain Dollar-Cost Averaging? (pp.117-127)

Karyl B. Leggio, Donald Lien

Some studies find the dollar-cost averaging investment strategy to be sub-optimal from a mean variance expected utility of wealth perspective. Statman [The Journal of Portfolio Management (1995) fall] introduces a behavioral rationale for the persistence of dollar-cost averaging. Using prospect theory to create an alternative utility function that does not require investors to be strictly risk averse, we empirically test Statman's conjecture for four investment strategies and for alternative stock investments. We find loss aversion still does not explain the existence of the dollar-cost averaging investment strategy.

A Stock Selection Model Using Momingstar's Style Box (pp. 129-144)

Frederick P. Schadler, Stanley G. Eakins

In this paper, we place firms in the Morningstar's style box cells and test whether selecting firms from these cells allows investors to compile a portfolio consistent with their risk tolerance. We confirm that the risk of those cells is consistent with the risk expectations published by Morningstar. Firms assigned to the upper left cells are lower risk than those assigned to the lower right cells. When we test for risk-adjusted returns we do not find that investing in high risk cells results in greater returns. Our results suggest higher returns are possible by investing in lower risk value cells.

Variable Annuities Versus Mutual Funds: A Monte-Carlo Analysis of the Options (pp. 145-161)

Moshe Arye Milevsky, Karnphol Panyagometh

Mutual funds and variable annuities are similar instruments that differ mainly in their tax treatment. Their relative appeal is the subject of intense debate in the industry. This paper contributes 10 the literature by quantifying the impact of investment return uncertainty when comparing the two. We focus on the embedded tax options using Monte-Carlo simulations. We conclude that although low-cost variable annuities are superior to low-cost mutual funds over long time horizons, the critical threshold is at least 10 years for typical levels of risk aversion. If, however, one ignores the tax options, the erroneous break-even horizon drops to 5 years.

Federal Open Market Committee Meetings and Stock Market Performance (pp.163-171)

Cynthia Royal Tori

This paper examines an interesting calendar effect—a relationship between contemporaneous stock market returns and Federal Open Market Committee (FOMC) meeting dates. Examining S&P 500 stock market returns between 1960 and 2000, the study finds that there is a positive and significant calendar effect associated with FOMC meeting dates. The data reveal that while FOMC meeting dates only accounted for 4.42% of the trading days, FOMC meeting date returns accounted for over 13% of the cumulative returns over the time period. Using a dummy variable for FOMC meeting dates, regression results find that the FOMC meeting dates have a significantly positive effect on overall market returns.

Evaluating a Stock Market Timing Strategy: The Case of RTE Asset Management (pp.173-186)

Ahmet Tezel, Ginette McManus

Market timing is a popular active investment strategy that promises to beat the market. However, the evidence on the ability of timers to outperform the market is mixed. This paper provides strong supporting evidence of the timing ability of RTE Asset Management by investigating the implemented buy and sell recommendations derived from its proprietary computerized model over the 1979-1999 period and several subperiods. We use various performance-evaluation methodologies that investors can easily implement. The evidence obtained on market timing skills is essentially invariant to the evaluation method used if the analysis is performed over a long time period.

The CFP© Certification Examination Process: A Discussion of the Modified Angoff Scoring Method (pp. 187-195)

J.David Ashby, DBA, CFP , CPA

The CFP Certification Examination, unlike many other professional examinations, is scored using a system that reports scores on a pass-fail basis but does not provide specific numerical scores. This grading system, known as the modified Angoff process, establishes a passing score for each examination and then incorporates adjusting factors to reconcile actual and expected testing results. The CFP© Board also factors in an additional scoring adjusting to equate test scores for consistency over time. The purpose of this paper is to explain the methodology of the modified Angoff process and, in particular, how it relates to the Certified Financial Planner Board of Standards Certification Examination.

The Financial Modernization Act: New Perspectives for the Finance Curriculum (pp. 197-208)

Erika W. Gilbert, William L. Scott

The Financial Modernization Act of 1999 permits banks, securities firms, and insurance companies to combine and compete with each other in all types of financial services. No longer are the names of financial institutions synonymous with their particular products. This suggests moving from an "institutional perspective" that focuses upon the historical specializations of institutions, to a "functional perspective" that focuses upon the value added by financial services. The functional approach offers the finance curriculum a broad and flexible methodology for covering financial services

A Guide to Building a University Trading Room (pp. 209-220)

John C. Alexander, Jr., Charles C. Heck, Robert B. McElreath

Many business schools are currently considering investing in trading rooms to help educate their students relative to capital markets. This article summarizes the benefits, costs, and alternatives associated with building a financial information or trading room. The benefits include; quick and easy access to a large amount of financial data, increased exposure to real-time financial market activity, and reputational capital for the school. We discuss the current databases available, and introduce software and hardware solutions. We also provide tips on room design, how to raise money, and potential uses of the room.

Identity Theft: No Help for Consumers (pp. 221-235)

John E. Matejkovic, Karen Eilers Lahey

Identity theft is a growing problem in the American economy. While there have been attempts to address and minimize the problem, those attempts have focused on making identity theft a crime. This paper discusses the inadequacy of this approach from the perspective of individual victims of identity theft, and the fact that the law currently provides those victims little recourse or remedy for the harms they suffer. It also offers a proposal for legislation that would provide some remedy as well as an incentive to protect consumer identity information.

A Closer Look at Trading Strategies for U.S. Equity Closed-End Investment Companies (pp. 237-248)

Seth C. Anderson, B. Jay Coleman, Jeffery A. Born

Earlier studies of U.S. closed-end investment companies (CEICs) examined whether the discount between CEIC price and net asset value could be exploited to gain excess returns. We advance these studies by investigating many more trading strategies and various transaction costs. We find that the role of the span between buy and sell trigger points is highly significant in determining returns, and that transaction costs impact returns and mitigate the influence of the trigger point span. Moreover, the ten most successful strategies for each transaction cost level exhibit lower coefficients of variation than does the Standard & Poor's 500 index.

Intertemporal Risk-Return Relationship In the Asian Markets around the Asian Crisis (pp. 249-272)

Eric Girard, Hamid Rahman, Tarek Zaher

This study investigates the risk-return relationship in nine Asian capital markets and the US before, during, and after the Asian financial crisis. Using a state-dependent approach in a TGARCH-M framework, we investigate a

contemporaneous version of the CAPM by accounting for negative and positive market price of variance risk. We find a significant positive relationship between risk premium and variance in all markets in upstate, as well as a significant negative relationship in downstate. Also, we validate our findings by showing that implied state-dependent market prices of variance risk explain risk premia across markets. Finally, we investigate how the model can be used to uncover overreaction and improve the number of correct directional calls in a tactical asset allocation strategy. Our results provide support for a contrarian strategy that individual investors can follow.

Consultation and Resource Usage in Retirement Savings Decisions: Australian Evidence of Systematic Gender Differences (pp. 273-290)

Marilyn Clark-Murphy, Paul Gerrans

Australian retirement savings funds are growing rapidly and fund members are assuming greater responsibility for their own savings. Individuals' retirement savings decision processes have not been extensively researched, however, these decisions are significant not only for members but also for employers and government. This paper provides information on retirement savings in Australia and reports on a survey of members of a University superannuation fund who were recently asked to choose between a defined benefit scheme or one of four investment accumulation accounts. We explore gender differences in knowledge of superannuation and those consulted in making the decision.

Book-To-Market and Size as Determinants of Returns in Small Illiquid Markets: The New Zealand Case (pp. 291-302)

John F. Pinfold, William R. Wilson

The paper highlights the difficulties in adopting investment strategies designed to exploit book-to- market and size effects on the New Zealand share market, which is small and illiquid by world standards. The small number of suitable companies listed on the market, and the high return volatility of individual equities make it difficult to reliably achieve superior returns. Excess returns due to size and book-to-market are highly volatile on a period-by-period basis due to the high volatility of individual shares combined with small portfolio size, which limits diversification.

Portfolio Diversification in a Highly Inflationary Emerging Market (pp. 303-314)

Michael E. Hanna, Halil Kiymaz, Grady Perdue

This study applies modem portfolio theory to the individual asset allocation decision of an investor in an emerging market. The study utilizes data from January 1991 to January 1999. Turkey 's experience with high inflation, depreciation in its currency, and a relatively fast growing economy provide a unique financial environment to

examine personal portfolio asset allocation. Seven investments are considered for inclusion in the portfolio, including the Turkish, German and American stock markets, gold, and l2-month bank deposits denominated in Turkish liras, German marks, and U.S. dollars. The findings indicate that the lira-denominated bank deposit is the dominant investment vehicle.