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Who holds foreign stocks and bonds? Characteristics of active investors in foreign securities (pp. 1-21), Vladyslav Kyrychenko, Pauline Shumb

We study the behavior of active individual investors who hold foreign stocks and bonds directly. Using the Survey of Consumer Finances, we determine the demographic, financial, and behavioral characteristics that predict the likelihood of direct investments in foreign stocks and bonds. Our main findings are: (1) while aggregate data indicate substantial home bias, within the group of active individual investors in foreign stocks, there is no evidence of home bias, and (2) age, financial wealth, and proxies for investor confidence are positively related to direct ownership of foreign stocks and bonds, while proxies for lack of financial sophistication have a negative effect. © 2009 Academy of Financial Services. All rights reserved.

The value of stop loss strategies (pp. 23-51), Adam Y.C. Lei, Huihua Lib

Stop loss strategies can prevent investors from holding their losing investments too long by automatically prompting the sales of losing investments. We examine the impacts of stop loss strategies on the return and risk of individual common stocks. Our results indicate that these strategies neither reduce nor increase investors' losses relative to a buy-and-hold strategy once we extend security returns from past realizations to possible future paths. One unique stop loss mechanism, nevertheless, helps investors to reduce investment risk. These findings suggest that the value of stop loss strategies may come largely from risk reduction rather than return improvement. © 2009 Academy of Financial Services. All rights reserved.

A new strategy to guarantee retirement income using TIPS and longevity insurance (pp. 53-68), S. Gowri Shankar

Retirees investing their savings in stocks and bonds face the risk of financial ruin even when withdrawing as little as 4% annually. This paper proposes a new investment strategy using Treasury Inflation Protected Securities and longevity insurance that would guarantee real annual withdrawal rates in excess of 5% without any risk of financial ruin. The strategy can be implemented at minimal cost by retirees and their financial advisers. Institutional providers can use this strategy to offer products that would provide inflation adjusted lifetime incomes and allow retirees to retain control over most of their savings in retirement. © 2009 Academy of Financial Services. All rights reserved.

Investing in Mad Money: price and style effects (pp. 69-86), Paul J. Bolster, Emery A. Trahan

Individual investors have an incredible variety of sources for investment guidance. These include internet blogs, financial publications, books, newsletters and, of course, television shows. We examine a relatively new but widely popular source of investment advice, buy, and sell recommendations made by Jim Cramer on his popular nightly Mad Money show on CNBC. Our results suggest that Cramer's recommendations influence share prices of the companies that he mentions. The effects are short-lived and reverse for buy recommendations, although they persist for sell recommendations, and indicate momentum effects. Our analysis of a Cramer portfolio suggests that factor-adjusted returns are significantly different from zero for some subperiods. Factor analysis suggests that Cramer's portfolio returns are driven by beta exposure, smaller stocks, value-oriented stocks, and momentum effects. However, factor exposures change significantly during subperiods. Overall, the results suggest that, while Cramer may be entertaining and mesmerizing to many of his viewers, his aggregate or average stock recommendations are neither extraordinarily good nor unusually bad. © 2009 Academy of Financial Services. All rights reserved.

The CAN-SPAM Act of 2003 and stock spam emails (pp. 87-104), Bill Hub, Thomas McInisha, Li Zengb

One goal of the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 is to combat pump and dump stock spam email schemes aimed at individual investors. The Act specifies requirements for those who send commercial emails. We find that only 60% of the 40,000 stock spam emails analyzed follow these disclosure requirements and emails that disclose conflicts of interest have a lower market impact. After the peak spam email day, stock prices decline, indicating that individual investors lose money. A Securities and Exchange Commission crackdown in 2007 reduced the impact of stock spam emails. © 2009 Academy of Financial Services. All rights reserved.

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Cost efficiencies and the selection of closed-end funds (pp. 105–122), D.K. Malhotra, Rand Martin, Robert W. McLeod

Over the last decade, the amount of assets under management in closed-end funds (CEFs) has almost doubled whereas the number of funds has increased by only about 26%. For investors who use CEFs in their portfolios, it is important to understand whether this growth provides benefits through the existence of economies of scale. To aid individual investor in fund selection, this study provides an insight into the determinants of cost efficiencies in the CEF industry for the period 1995 to 2005. Empirical results show that cost increases in the United States CEF industry have been less than proportionate to increases in assets, which points to economies of scale for the industry. Furthermore, the average cost elasticity varies with fund size and investment objective. © 2009 Academy of Financial Services. All rights reserved.

Reality check: The implications of applying sustainable withdrawal rate analysis to real world portfolios (pp. 123–139), Qianqiu Liu, Rosita P. Chang, Jack C. De Jong, Jr., John H. Robinson

This paper brings portfolio sustainability research closer to practical application by examining how common practitioner investment and withdrawal strategies impact sustainability. The results suggest that the application of a multiasset portfolio model may improve sustainability success rates relative to simple two-asset models illustrated in previous research, and the advantage becomes more pronounced with higher withdrawal rates and longer time horizons. We also find that a “bonds first” withdrawal strategy appears to be superior to a constant allocation strategy as both time horizon and withdrawal rate rise. Most notably, the results of our analysis suggest that there is no single optimal retirement asset allocation, but rather a continuum of ideal allocations that become increasingly equity-weighted as the investor’s required withdrawal rate and/or expected time horizon increase. © 2009 Academy of Financial Services. All rights reserved.

The growth of charitable estate planning among Americans nearing retirement (141–156), Russell N. James, III, Mitzi K. Lauderdale, Cliff A. Robb

A trend analysis of 41,965 Americans aged 55 to 64 reveals that charitable estate planning within this age group steadily increased from 1996 to 2006 (both absolutely and as a share of planned estates). Descriptive statistics and probit analyses suggest that this increase was driven in large part by higher levels of education and childlessness and by an increasing propensity for those without children to make charitable estate plans. As future cohorts of Americans nearing retirement age are projected to have even higher levels of education and childlessness, the trend of increased charitable estate planning is likely to continue for some time. © 2009 Academy of Financial Services. All rights reserved.

Expanding financial education and planning opportunities through service-learning (pp. 157–175), Lance Palmer, Joseph Goetz, Swarn Chatterjee

This paper examines the impact a service-learning activity, structured around the Volunteer Income Tax Assistance program, has on students’ intentions to participate in, and organize, pro bono activities in the future as financial planning professionals. Data were collected from a sample of 66 student participants who were studying financial planning and enrolled in courses that had significant service-learning requirements (20 hours of service with 20 hours of preparation). Using a pre- and post-service experimental design, results indicated statistically significant changes in students’ intentions to participate in and organize pro bono activities as professionals. © 2009 Academy of Financial Services. All rights reserved.

Do contracts influence comprehensive financial advice? (pp. 177–193), Michael Finke, Sandra Huston, William Waller

Delegating management of financial decisions may involve both direct and agency costs. We hypothesize that contracting differences between financial planners and brokers may lead to differences in life insurance adequacy. Using nationally representative data, we estimate the impact of the use of planners and brokers on life insurance adequacy. Descriptive and

multivariate analyses of insurance adequacy are consistent with the hypothesis that contracting matters. Those who rely primarily on financial planners are more likely to have adequate life insurance holdings. The use of brokers is not related to optimal levels of life insurance. © 2009 Academy of Financial Services. All rights reserved.

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IRAs under progressive tax regimes and income growth (pp. 195–211), Stephen M. Horan, Ashraf Al Zaman

This article investigates the choice between a traditional IRA and a Roth IRA in the presence of a progressive tax regime, income growth, and exogenous retirement income. These factors affect the tax rate that applies to deductible IRA contributions and taxable distributions and can therefore influence the optimal choice. Assuming constant income tax rates or exogenously determined tax rates for working years and retirement years, which has been popular in the literature, may lead to misleading conclusions. For aggressive savers enjoying high rates of return or high levels of other retirement income, the Roth IRA can be a better choice than a traditional IRA. © 2009 Academy of Financial Services. All rights reserved.

Index funds or ETFs: the case of the S&P 500 for individual investors, (pp. 213–230), Larry J. Prather, Ting-Heng Chu, M. Imtiaz Mazumder, John C. Topuz

We investigate alternative S&P 500 indexing strategies for individual investors using S&P 500 index funds and the Standard and Poor's depository receipt (SPDR). This investigation is important because while SPDRs have lower advertised annual expenses, investors in SPDRs face bid-ask spreads and commissions. We compute average spreads of SPDRs using transaction-by-transaction data, present a model to illustrate how investors can compare alternative index investments, and illustrate the results under several scenarios. We conclude by comparing risk-adjusted returns of the alternatives to ensure that undisclosed trading costs do not alter the choice. © 2009 Academy of Financial Services. All rights reserved.

Style index rebalancing for better diversification: lessons from broad market and equity style indexes (pp. 231–248), Scott Below, Ph.D., Joe Kiely, Ph.D., Robert Prati, Ph.D.

We explore the effectiveness of rebalancing approaches by examining the performance of both time-based and various asset-level-based triggers using equally weighted portfolios comprised of six equity style indexes. Although either form of style rebalancing attains superior performance (both absolute and risk-adjusted) over a naïve, buy-and-hold approach, we find trigger-based rebalancing results to be marginally superior. We also note that both the inability to rebalance asset allocation within a traditionally indexed equity investment fund as well as intermediate-term variability in size and style performance combine to dispel the widespread belief that investors can achieve adequate diversification solely through broad-market index holdings. © 2009 Academy of Financial Services. All rights reserved.

Optimal retirement ages for couples considering Social Security payments and withdrawals from private savings (pp. 249-2600, Michael Tucker)

Munnell and Soto's (2007) work on the optimal age to initiate Social Security benefits for couples is extended to a model that adds withdrawals from private savings to Social Security benefits. Optimal retirement age is found to be a function of savings and the rate of return on those savings. Savings with zero or minimal return reduce or eliminate the motivation for postponing retirement. As the rate of return on those savings rises, delay becomes increasingly beneficial. A reduction in savings at retirement can result in several years of delay in retirement to achieve prior expected income with greater delays a function of the portion of expected retirement income to be derived from savings. © 2009 Academy of Financial Services. All rights reserved.

Credit card policies for allocating payments: its impact on risk-based pricing and comprehension by consumers (pp. 261–290), Joshua M. Frank

Credit card borrowers can have balances on the same card at several different rates at once. By choosing a favorable method of allocating payments to balances, issuers can substantially raise the interest rates paid by borrowers. The impact of this policy on risk-based pricing is examined using computer-simulated accounts. It is found that the prevailing policy used by issuers causes inverse risk-based pricing. In addition, a survey shows that few credit card users understand the impact of payment allocation. The impact of recent legislation on payment allocation policy is also examined. © 2009 Academy of Financial Services. All rights reserved.

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Financial analysis of equity-indexed annuities (pp. 291–311), William Reichenstein, Ph.D.

This study examined historical returns on four equity index annuity (EIA) contract designs and 13 contracts for 1957–2008, the period since the S&P 500 began. None of these contracts could match returns on one-month Treasury bills. Based on alphas and Sharpe ratios, none of the contracts could produce competitive market-based returns. More important, because of their design, index annuities *must* underperform returns on similar risk portfolios of Treasury's and index funds. EIAs impose several risks that are not present in market-based investments including surrender fees and loss of return on funds withdrawn before the end of the term. This research suggests that salesmen have not satisfied and cannot satisfy SEC requirements that they perform due diligence to ensure that the indexed annuity provides competitive returns before selling them to any client. © 2009 Academy of Financial Services. All rights reserved.

The impact of asset allocation, savings, and retirement horizons, savings rates, and social security income in retirement planning: A Monte Carlo analysis (pp. 313–331), Danny M. Ervin, Ph.D., Gregory K. Faulk, Ph.D., Joseph C. Smolira, Ph.D.

This study uses Monte Carlo simulation to evaluate the ability of various deposit percentages and asset allocation weights to support withdrawals in retirement that permit smoothed income over the life of an individual. The results indicate that, in general, individuals need to deposit at least 15% of pre-retirement salary for 30 or more years in a portfolio consisting of at least 50% equity to achieve a high success rate for portfolio withdrawals. When Social Security payments are excluded from the retirement income, the success rate is greatly impacted by the savings rate, the savings period, and the amount of equity investment in the portfolio. © 2009 Academy of Financial Services. All rights reserved.

The portfolio implications of adding Social Security private account options to ongoing investments (pp. 333–353), Joseph Friedman, Ph.D., Herbert E. Phillips, Ph.D.

Proposals to allow private accounts under Social Security were introduced long before George Bush was elected President, and support for privatization in some form will survive his administration and the economic downturn that followed. This paper studies the impact that private accounts would have on risk/return investment tradeoffs available to Social Security participants who save and invest on an ongoing basis outside the Social Security system. For such investor/participants, we show that the reduction in total diversifiable risk afforded by traditional Social Security accounts would be more than sufficient in many cases to compensate for the opportunity cost of opting-out of a privatization program if one were enacted. The risk of financing private accounts by diverting mandatory contributions away from guaranteed benefit accounts, on the other hand, would be proportionately higher for those with little or no private savings or investments outside the Social Security system. The paper concludes, therefore, that privatization would lead to imprudent risks being borne by those who can least afford to do so, and would offer no significant advantage to others. © 2009 Academy of Financial Services. All rights reserved.

Can individual investors duplicate professional momentum investing? (pp. 355–380), Glenn N. Pettengill, Susan M. Edwards, Frank T. Griggs

Pettengill, Edwards and Schmitt (2006) compare the selections made by the professionals and the readers in *The Wall Street Journal* Dartboard Contest. They find that the selections of the professionals are significantly more profitable than the selections of the readers and argue that momentum investing is not a viable choice for individual investors. In this study, we investigate whether individual investors can benefit by mimicking investment choices of professionals as displayed in this contest. In order for individual investors to benefit from this information there must be discernible differences in the selections made by the readers and the pros. We examine a number of characteristics that have been shown to cause return differentials between securities, in general, and in momentum securities, in particular. If the selections of the pros and the readers differ with respect to these characteristics and these differences can explain the observed return differentials in the contest, then individual investors might be able to mimic the momentum investing of the pros. Because we find these characteristics do not explain the return differentials

between the pros and the readers, we reject the proposition that individual investors can benefit by mimicking the momentum investing behaviors of the pros. © 2009 Academy of Financial Services. All rights reserved.

Measuring financial preparation for retirement: a new scale using Australian evidence (pp. 381–399), Donald G. Ross, Ph.D., Lester Wills, Ph.D.

This paper presents a new scale to measure financial preparation for retirement (FPR) that permits researchers to more easily compare their results across populations of interest. The paper first develops the new scale, drawing on FPR indicators commonly used in the financial planning literature. The paper then describes Australians in terms of the individual constituent indicators of FPR. Finally, the application of the scale to a representative sample of the Australian population shows that higher levels of FPR are better explained by income, years left to retirement, and education than the more commonly accepted factors of age and gender. © 2009 Academy of Financial Services. All rights reserved.