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The Shareholder Wealth Effects of CalPERS' Activism (pp. 1-10)

Claire E. Crutchley, Carl D. Hudson, Marlin R.H. Jensen

In the past decade, institutional investors have become more active in monitoring management and voting the shares they control. The California Public Employees' Retirement System (CalPERS) was a leader in this wave of activism. This study investigates the long-term returns an investor with public information could earn by buying a portfolio of firms targeted by CalPERS and whether the success of CalPERS' activism depends on the aggressiveness of the targeting. The evidence supports the idea that visible and aggressive activism leads to substantial increases in shareholder wealth while a quieter activism does not.

**A Tax-Free Exploitation of the Turn-of-the-Month Effect:
C.R.E.F.** (pp. 11-23)

Robert A. Kunkel, William S. Compton

By applying knowledge of the "turn-of-the-month" effect investors will improve the risk-adjusted performance of their retirement accounts by using a simple and easily implemented "switching" strategy. Our exploitation of the turn-of-the-month anomaly achieves a 17.7 percent average annual rate of return by switching between a money market account and a broad market indexed stock account. This is compared to a 15.6 percent average annual rate achieved by simply buying and holding the stock account, or a 5.8 percent average rate on the money market account. Additionally, volatility is cut in half and there are no tax consequences or transaction fees when the switching strategy is used within a retirement account. Our results suggests that this strategy might be successfully implemented, under current tax laws, in qualified retirement plans and in variable annuities.

**Term Spreads and Predictions of Bond and Stock Excess
Returns** (pp. 25-44)

Dale L. Domian, William Reichenstein

Several studies conclude that a long-short term spread, in conjunction with one or more other variables, jointly predict returns on long-term corporate bonds and stocks. We extend these studies by examining the predictive content of intermediate-short term spreads, and by examining regressions of excess returns on 1.5-year to 20-year Treasury bonds. We show that the bond market prices an intermediate-short term spread, and not a long-short

spread. We believe individuals should vary their debt-equity mix with the level of a default risk premium or the stock market's dividend yield, and vary their debt portfolios' maturity with an intermediate-short term spread.

Explaining Persistence in Mutual Fund Performance (pp. 45-55)

Larry Detzel, Robert A. Weigand

This study investigates the determinants of persistence in mutual fund performance. Previous research that uses factor-mimicking portfolios and characteristic benchmarks to model fund performance fails to explain all the persistence in fund returns. This study employs a model that directly relates mutual fund returns to the characteristics of the stocks held by funds. Adjusting fund returns for the size of the stocks in which funds invest and financial ratios intended to capture fund manager investment styles explains all the persistence in mutual fund returns from 1976-1985, the period in which persistence is most prevalent.

The Performance Persistence of Experienced Mutual Fund Managers (pp. 57-68)

Gary E. Porter, Ph.D., Jack W. Trifts, Ph.D.

This study examines the performance of 93 fund managers over the 10 year period 1986 through 1995 using relative percentile ranks based on quarterly compounded, annual total returns measured against funds with the same investment objective. On average, managers with 10-year track records at the same fund do not perform better than managers with shorter track records. Also, for these experienced managers, superior performance in one five-year period is not predictive of superior performance over the next five years. However, inferior performance persists particularly for funds with above average expense ratios.

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Innovations in Savings Schemes: The Bonus Bonds Trust in New Zealand (pp. 73-81)

Jenny Ridge, Martin Young

Bonus Bonds were introduced into New Zealand in March 1970 based on the Premium Bond savings scheme operating in the United Kingdom. A Bonus Bond is a unit in the Bonus Bonds Trust with all income from the trust's conservative investments being balloted for on a monthly basis by the bond holders. This paper looks at the history and operation of the Bonus Bonds savings scheme in New Zealand and examines why it has such wide appeal for New Zealanders. The paper also addresses the following aspects of the scheme. Performance of the Bonds; their level of success as a savings vehicle; factors contributing to their relative success over time; the risk profile of the bond holders. The major findings of the paper are that investors in Bonus Bonds have little appreciation of real values and they view the bonds as an appropriate investment for risk averse investors.

Closed End Investment Companies: Historic Returns and Investment Strategies (pp. 83-93)

Carolyn Reichert, Ph.D., J. Douglas Timmons, Ph.D.

Studies conducted in the past have identified inefficiencies in the market for Closed End Investment Company (CEIC) shares. In addition, studies have demonstrated the potential for trading strategies to exploit these inefficiencies. The purpose of this paper is to investigate the possibility of achieving excess returns through the utilization of relatively simple strategies not requiring continuous monitoring of discount(s) or frequent trading. Our investigation demonstrates that realizing excess returns through the use of simple mechanical trading strategies will not be possible.

The International Diversification Fallacy of Exchange-Listed Securities (pp. 95-106)

Judson W. Russell

This paper reviews various investment vehicles and examines their international diversification potential. The primary focus is on the ability of U.S. exchange-listed investments such as closed-end country funds, American depository receipts (ADR's), and multinational corporations (MNC's) to provide a diversification effect similar to direct investment in foreign equity. The results show that the U.S. exchange-listed securities included in this study behave more like the host exchange than their home exchange. This result suggests that these U.S. exchange-listed securities, on average, do not perform an international diversification role for U.S. investors.

An Analysis of Personal Financial Literacy Among College Students (pp. 107-128)

Haiyang Chen, Ronald P. Volpe

This study surveyed 924 students to examine their personal financial literacy; the relationship between the literacy and students' characteristics; and impact of the literacy on students' opinions and decisions. Results show that participants answer about 53% of questions correctly. Non-business majors, women, students in the lower class ranks, under age 30, and with little work experience have lower levels of knowledge. Less knowledgeable students tend to hold wrong opinions and make incorrect decisions. It is concluded that college students are not knowledgeable about personal finance. The low level of knowledge will limit their ability to make informed decisions.

Putting Your Money Where Your Mouth Is' A Profile of Ethical Investors (pp. 129-143)

Diana Beal, Michelle Goyen

This research sought to determine why people chose to invest in Earth Sanctuaries Limited (ESL), which conserves ecosystems and breeds endangered species as its corporate mission, an unequivocally ethical objective. Investors were surveyed to assess the relative importance of financial versus ecological considerations. Demographic and investor behavior attributes of ESL shareholders were compared with those of Australian shareholders as reported by an Australian Stock Exchange survey. The results showed that the environmental mission of ESL took pre-eminence over financial considerations for these investors. Comparison of the two groups revealed significant differences in most variables.

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The Rise and Fall of the 'Dogs of the Dow' (pp. 145-159)

Dale L. Domian, Charles E. Mossman

A 1998 Academy of Financial Services Award Paper with funding provided by The Association of Individual Investors

The Dow Dividend Strategy recommends the highest-yielding stocks from the 30 Dow Industrials. These stocks have come to be known as the 'Dogs of the Dow' since they often include some of the previous year's worst performers. While the strategy's successes - and more recently, its failures - have been well documented in the popular press, there have not been any convincing explanations of why the strategy worked. This paper demonstrates that the behavior of these stocks is consistent with the market overreaction hypothesis. In years before the stock market crash of 1987, the dogs were indeed 'losers' which went on to become 'winners.' But in the post-crash period, the high-yield stocks actually outperformed the market during the previous year. The Dow Dividend Strategy is no longer selecting the true dogs.

The Sociology of Personal Finance (pp. 161-173)

Chris Robinson, Elton G. McGoun

A 1998 Academy of Financial Services Award Paper with funding provided by the American College

Finance in general and personal finance in particular assume that there is a pure market money. The financial resources of a business or a household are taken to be a single mass made up of indistinguishable dollars, marks, yen, pounds, francs, or whatever. Consequently, we are free to devise "rational rules" for managing this mass, for prescribing how a business or household should choose the appropriate forms of money and the appropriate accounts for money without having to look more closely at the money itself. In this paper we argue that rational behavior is a more complex and richer process than simply valuing market money, since there are qualitative characteristics attached to any money, however defined.

Mean and Pessimistic Projections of Retirement Adequacy (pp. 175-193)

Yoonkyung Yuh, Sherman Hanna, Catherine Phillips Montalto

A 1998 Academy of Financial Services Award Paper with funding provided by Texas Instruments

Retirement adequacy is estimated using a 1995 United States sample of households. Based on mean lognormal portfolio projections and current contribution rates, 52% of households are adequately prepared for retirement. Based on pessimistic projections, only 42% of households are adequately prepared. A regression of the ratio of projected wealth to needs at retirement shows that adequacy increases with stock share (mean projection) and the impact increases with time until retirement. With pessimistic projections, there is no significant relationship between stock share and the adequacy ratio. Planned retirement age and household spending behavior are each significantly related to the adequacy ratio.

Calculating a Family's Asset Mix (pp. 195-206)

William Reichenstein

I reach two conclusions about how a family should calculate its asset mix. First, if the assets will be used to finance retirement needs, the asset mix should be based on after-tax values, because goods and services are purchased with after-tax dollars. This novel conclusion rejects current practice. The second conclusion concerns which assets and liabilities should be included in the portfolio. If the purpose of the calculation is to consider a family's retirement needs, the asset mix should include the promises of defined-benefit pension plans and Social Security, and the family's mortgage should be treated as a short bond position. Also, if the family is willing to downsize or borrow against the residence, part of its value should be included in the portfolio.

Credit Union Industry Structure: An Examination of Potential Risks (pp. 207-215)

Robert J. Boldin, Keith Leggett

The Credit Union Industry has undergone significant changes over the past decade. With more than 11,500 credit unions now serving 74 million members, it continues to attract shareholders/depositors because of its generally lower cost services and higher returns on savings. The Credit Union Membership Access Act of August 1998 should help membership continue to grow. At the same time, however, shareholders/depositors should be aware of the unique structure of the credit union industry. This paper examines the inherent risk as a result of the interrelationships among its components.

The Correlations of Professionalization and Compensation Sources with the Ethical Development of Personal Investment Planners (pp. 223-236)

Kenneth S. Bigel

Recent controversies concerning personal financial planners, and investment planners in particular, have centered around two issues: competence and ethics. This paper has focused on the ethical development of a sample of investment planners in connection with the correlative roles of professionalization and compensation sources. Certified Financial Planner designees were found to manifest higher ethical development scores than non-Certified Financial Planner designees. Fee-based planners manifested no significantly different ethical development scores than their counterparts. Other demographic variables were also studied.

Comment on S. Bigel's Paper (pp. 237-256)

Robert P. Goss

Consumer research has shown that two core values are at the heart of personal financial planning relationship between financial advisors and their clients-competency and trustworthiness. In 1993 a national consumer survey of 500 households with income of \$50,000 or more, commissioned by the Certified Financial Planner Board of Standards, Inc.

Managing College Tuition Inflation Using a Surplus Framework Methodology (pp. 257-271)

Judson W. Russell, Robert Brooks

This paper explores prepaid college tuition plans and develops a methodology for managing college tuition inflation. A surplus framework methodology is derived that employs various securities and incorporates both the assets and liabilities associated with prepaid college tuition plans. Although we present a methodology for plan management, the approach is applicable for individuals who manage their own college investment accounts. An interesting result of this analysis is that U.S. Treasury inflation-indexed securities should be included in the asset allocation decision for college tuition inflation management. By incorporating both the assets and liabilities from the plans into a surplus framework methodology, this paper provides a new portfolio management tool for plan administrators and individuals. Our assertion is that better managed plans offer more college financing alternatives for individuals.

Do Dividend Reinvestment Plans Contribute to Industrial Firm Value and Efficiency? (pp. 273-289)

Andrew Saporoschenko

This paper examines four hypotheses to test whether industrial firms offering DRIPs are structured to operate efficiently, given that DRIPs are a cheap source of outside financing for a firm. The hypotheses are derived from the corporate finance literature and partially based on a review of the previous DRIP-related finance literature. Evidence is found that larger firms will be more likely to offer DRIPs, which supports a bookkeeping hypothesis. No difference in valuation is found between DRIP firms and the other industry-matched firms using a Tobin's q proxy. Several cash flow measures are found not to be higher for DRIP firms. © 1999 Elsevier Science Inc. All rights reserved.

Planning to Move to Retirement Housing (pp. 291-300)

Karen M. Gibler, George P. Moschis

As the size and diversity of the older segment of our population grows, they will need increased assistance in planning for and choosing appropriate housing from the array of options offered in the marketplace. This national survey of people age 55 and older indicates interest in retirement community housing among all socioeconomic groups, but especially among women and better-educated seniors. Facilities that offer access to medical services, transportation, and shopping while providing housekeeping and personal care services along with social activities will appeal to these consumers.

Mutual Fund Shareholders: Characteristics, Investor Knowledge, and Sources of Information (pp. 301-316)

Gordon J. Alexander, Peter J. Nigro

Over the past twenty or so years, mutual funds have become an increasingly popular investment vehicle. Ownership of stock, bond, and money market mutual funds rose from 6% of U.S. households in 1980 to 42% in 1998, while the total assets held by mutual funds soared by almost 4,000%, increasing from \$135 billion to roughly \$5.5 trillion at year-end 1998 (Investment Company Institute, 1999). This dramatic growth has raised policymakers' concern with the level of investor knowledge regarding the costs and risks associated with mutual funds and with the types of distribution channels permitted to sell mutual funds. To provide perspective on these concerns, the Office of the Comptroller of the Currency ("OCC") and the Securities and Exchange Commission ("SEC") contracted with a market research firm to conduct a nationwide telephone survey of a randomly selected sample of 2,000 mutual fund investors (see Alexander, Jones, and Nigro, 1996).