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Gender Differences In Defined Contribution Pension Decisions
(pp. 1-10)

Vickie L. Bajtelsmit, Alexandra Bernasek, Nancy A. Jianakoplos

This paper considers gender differences in allocation of household wealth to defined contribution pensions. Using data from the 1989 Survey of Consumer Finances, we estimate the coefficient of relative risk aversion based on the allocation of wealth into defined contribution pensions. Unlike previous studies, we consider the problem in the context of the household's overall portfolio. We find that women exhibit greater relative risk aversion in their allocation of wealth into defined contribution pension assets.

International Equity Diversification And Shortfall Risk (pp. 11-25)

Kwok Ho, Moshe Arye Milevsky, Chris Robinson

International equity diversification benefits Canadian investors very substantially by reducing shortfall risk, as shown by results of a model that minimizes the risk of shortfall from a desired consumption level for a retired investor with an unknown date of death and stochastic investment returns. It does not benefit American investors materially. The United States equity market is a large proportion of the international equity market that is available to individual investors, and United States returns are highly correlated with other markets.

International Index Funds And The Investment Portfolio (pp. 27-35)

Scott Aiello

Financial advisers often recommend that investors diversify their investments internationally and also use the mutual funds with the lowest expenses. Recently it has been possible to use both of these strategies by purchasing an international index fund. This study evaluates international index funds as a means of portfolio diversification. Performance is evaluated using monthly return data on nine international indexes from January 1989 through December 1997. The returns are measured against the S&P 500 index returns. The results of the statistical tests suggest that international index investing does not offer superior returns compared to the S&P 500 index but that significant diversification benefits do exist.

A Nineties Perspective On International Diversification (pp. 37-45)

Micahel E. Hanna, Joseph P. McCormack, Grady Perdue

Investors often look to international diversification as a means to reduce the risk of a stock portfolio while maintaining a given level of return. In this study we look at ten years of historical data from the stock markets in G-7 countries. We see how diversification from an S&P 500 portfolio into a two-market (two-country) portfolio would have impacted the risk and return. Across this ten-year period, we find that a portfolio consisting solely of the S&P 500 dominates any portfolio that can be constructed from the S&P 500 and the market index of the G-7 countries.

Family Friendly Firms: Does It Pay To Care? (pp. 47-60)

Dianna C. Preece, Greg Filbeck

In this paper we examine the returns to a portfolio of 29 firms that are perceived as family- oriented. The sample is based on firms awarded the best 100 companies for working mothers in Working Mother Magazine's annual survey. There is much anecdotal evidence supporting the benefits of these programs, but little evidence relating family-oriented policies to shareholder wealth. We find, based on raw returns, that family-friendly firms do not earn statistically significant excess returns relative to a matched sample or to the S&P 500. Based on risk-adjusted returns, the family-friendly portfolio outperforms the market, but under performs a matched sample portfolio.

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Computerized Stock Screening Rules for Portfolio Selection (pp. 61-70)

Steven C. Gold, Paul Leibowitz

Recent studies have uncovered several systematic patterns that increase the probability that individual investors can select stock portfolios with excess returns. This study tests the feasibility of using a commercially available computerized stock screening program for investors to take advantage of these patterns. The screening program searches the three major exchanges and selects stocks on both fundamental and technical indicators: low price-to-sales ratio, small firm size, accelerating stock prices above their 50 day moving average, high trading volume, and high earnings growth. Of the 18 models tested between 1994 and 1998, those that allow for selection between exchanges yield portfolio returns that significantly exceed the average market indices.

Municipal Bonds: A Contingent Claims Perspective (pp. 71-85)

Robert Brooks

The purpose of this paper is to provide an overview of the municipal bond market with an emphasis on the numerous embedded contingent claims. Embedded contingent claims include the standard call features, sinking

funds, the advance refunding option, the synthetic advance refunding option, the credit risk option (default risk), marketability, and the numerous tax-related events. Municipal bond investors must carefully assess the relative value of these contingent claims before investing in municipal bonds. Also, due to unique risk premiums within the municipal bond market, it is important to carefully structure the municipal bond holdings, paying particular attention to duration, within the context of an overall financial plan. There appears to be a benefit to lengthening the duration of the municipal bond portion of the portfolio.

Investor Partitioning of the Components of Value in Corporate Earnings Announcements (pp. 87-99)

John A. MacDonald, David M. Smith

This study provides new insight into the market's allocation of dividend-related and capital gains-based returns on common stock around earnings announcement surprises. To the extent that investors' cash flow forecasts are revised as earnings surprises occur, Americus Trust prime and score returns reflect changes in respective future dividends and capital gains. About 70 percent of the value gain from positive surprises accrues in the capital gains (score) value adjustment, with expected dividends (primes) reflecting the remaining 30 percent. The relative proportion is greater in magnitude at the announcement of fiscal fourth quarter results when dividend changes are more likely to follow the quarter earnings announcement than announcements in other quarters.

Hedging Individual Mortgage Risk (pp. 101-115)

Terry L. Zivney, Carl F. Luft

This paper investigates the feasibility of an individual hedging the interest rate risk involved in planning to take out a mortgage at a future point in time. Simulation using market data indicates that a simple futures hedge reduces the variation in mortgage capacity by about one half. Expected mortgage capacity is very close to 100 percent of the original capacity at a very low cost. Hedging the individual mortgage with a put futures option is less effective in reducing downside risk and has a higher expected cost.

Does Retirement Planning Affect the Level of Retirement Satisfaction? (pp. 117-127)

Harold W. Elder, Patricia M. Rudolph

This paper analyzes the relationship between retirement planning and retirement satisfaction. Do individuals think about and plan for retirement? If they do, do they utilize financial planning services? If they plan, are they more satisfied with retirement than those who did not? Data for 1,781 retired individuals from the first wave of the Health and Retirement Study (HRS) are analyzed using an ordered probit model. The results indicate that thinking about retirement and attending planning meetings have a significant positive impact on satisfaction even when income, wealth, marital status and health are included as explanatory variables.

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An Empirical Analysis of Differences in Black and White Asset and Liability Combinations (pp. 129-147)

Daniel P. Salandro, Yaw A. Badu, Kenneth N. Daniels

This study analyzes data from the 1992 Survey of Consumer Finances and finds significant differences in asset and liability combinations between black and white households. In addition, white households are identified as having significantly greater net worth and financial assets relative to black households. We are unable to show that the net worth of black households is constrained by barriers in financial markets. Our study investigates how this difference in net worth could engender different financing decisions. We find that black households are significantly more risk averse in their choice of assets. Further, we find that black households typically pay higher rates for several types of credit instruments, even though they self identify as conducting significantly more extensive searches in the financial markets.

Racial Differences in Investor Decision Making (pp. 149-162)

Catherine P. Montalto, Michael S. Gutter, Jonathan J. Fox

Racial differences in investment behavior are investigated using data from the 1995 Survey of Consumer Finances. Socioeconomic, financial, and attitudinal variables are incorporated in a life-cycle savings model. The impact of all variables is allowed to differ between Black households and White households in order to understand racial differences in risky asset ownership. We determine that observed racial differences in risky asset ownership are explained by racial differences in the individual determinants of risky asset ownership, not by race in and of itself. Specifically, these differences appear to center on the impact of children and household size.

Financial Risk Tolerance Revisited: The Development Of A Risk Assessment Instrument (pp. 163-181)

John Grable, Ph.D., CFP©, Ruth H. Lytton, Ph.D.

This paper explores conceptual, methodological, and empirical issues related to the development of a financial risk-tolerance assessment instrument. Financial risk tolerance is a significant factor in a number of household financial decisions, yet few recognized, valid, and reliable methods of assessment are available for use by financial service providers and educators. Empirical results from a multi-stage development of a 13-item risk assessment instrument are discussed. The multidimensional instrument is presented as the foundation for the development of a more widely used and accepted index. Future use by practitioners and researchers is encouraged to further validate the usefulness of the instrument.

An Analysis of Affinity Programs: The Case of Real Estate Brokerage Participation (pp. 183-197)

Randy I. Anderson, Danielle Lewis, Leonard V. Zumpano

In this study we examine the impact of affinity programs on the residential real estate brokerage market. The results indicate that affinity-participating firms employ more salespeople, operate more offices, are more likely to be franchised, and have more multiple listings service affiliations than their non-participating counterparts. We directly test for firm and industry efficiency using a Bayesian stochastic frontier technique, and find strong evidence that non-affinity firms are much more efficient at allocating and utilizing their resources. These findings cast concerns on the industry in light of the growth of affinity programs.

International Mutual Fund Returns and Federal Reserve Policy (pp. 199-210)

Robert R. Johnson, Ph.D., CFA, Gerald W. Buetow, Ph.D., CFA, Gerald R. Jensen, Ph.D.

This study examines the performance of international mutual fund indexes across alternative Federal Reserve monetary policy environments. The results suggest that the benefits touted by advocates of international diversification may be less than previous studies indicate. Specifically, during restrictive U.S. monetary policy periods, international mutual fund indexes provide lower excess returns than domestic counterparts. Additionally, the correlations between international mutual funds and domestic mutual funds are higher during restrictive monetary policy periods. This evidence may represent a partial explanation for the home country bias exhibited by U.S.-based individual and institutional investors.

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An Integrative Approach to Using Student Investment Clubs and Student Investment Funds in the Finance Curriculum (pp. 211-221)

Brian Grinder, Dan W. Cooper, Michael Britt

The educational advantages of student investment clubs and student investment funds have been well documented. This paper suggests ways to integrate them into the finance curriculum and examines the benefits of integrating both funds and clubs into an instructional framework that provides important out-of-class experience to potential finance students, allows for the practical application of finance theory, and gives alumni an opportunity to remain involved with their alma mater. A discussion of how research in student learning styles can help instructors maximize the benefits of club and fund activity is also included.

Undergraduate Research: The Senior Thesis in Finance (pp. 223-234)

Ellie Fogarty, Herbert Mayo

An undergraduate senior thesis offers the individual student an opportunity to pursue a topic of special interest or in greater depth than available in a traditional course. This paper describes the Senior Thesis in Finance required of all finance majors enrolled in The College of New Jersey, specifies the objectives of the thesis, and offers the results on an assessment survey of alumni, who completed the senior thesis.

Student Learning Style and Educational Outcomes: Evidence from a Family Financial Management Course (pp. 235-251)

Jonathan Fox, Suzanne Bartholomae

The academic performance of 419 undergraduate students in an individual financial management class was evaluated in light of their learning style, demographic background, academic history and time allocation. Academic history and time use variables proved to be the only significant predictors of grades in the course. Student learning style, as measured by Kolb's Learning Style Inventory, was not a strong predictor of success in this financial management class, and it appears that no single type of learner best grasps financial management concepts. The implications of these finding lead to a discussion of instructional methods.

Does Education Affect How Well Students Forecast the Market? (pp. 253-260)

John C. Alexander Jr., Robert B. McElreath

This study examines the results of a student stock market forecasting project used in our basic and advanced investments classes. Students fail to outperform a random walk model over the entire period, but do perform well in some subperiods. Students receiving an above average grade in the basic investments class provide more accurate forecasts than all other groups of students. Further, poorer performing students tend to be more pessimistic in their expectations of the market. The results suggest that education improves the forecasting ability of students.

An Integrated Model for Financial Planning (pp. 261-268)

Natalie Chieffe, Ganas K. Rakes

Financial planning is a broad subject that requires an integrating overview, The Model for Financial Planning incorporates the time and the expected nature of financial events. The categories of the model include 1) money management issues that the individual faces as short-term expected events, 2) issues of meeting unexpected financial events through an emergency fund and insurance, 3) investing to reach the individual's intermediate and long-term goals, 4) transference planning and other long-term issues whose time frame is unknown. The model has

applications for "do it yourself' investors, financial planners, and students. The framework successfully integrates the broad range of topics typically covered in financial planning and personal finance courses.

Cash Flow: A Quick and Easy Way to Learn Personal Finance

(pp. 269-282)

Ronald R. Crabb

A cash flow spreadsheet methodology simplifies solving a number of common personal finance problems. At schools where a basic finance course is not a prerequisite for the personal financial planning course, this methodology makes learning personal finance skills and concepts quick and easy. It reinforces time value of money mathematics when students have had a prerequisite finance course. Creating the cash flow spreadsheets, editing them for errors, and testing the finished spreadsheets for logical consistency imprints in minds of most students the skills and concepts you are trying to teach.

Effective Teaching and Use of the Constant Growth Dividend Discount Model (pp. 283-291)

Thomas H. Payne, J. Howard Finch

The appropriate application of the constant growth dividend discount model (DDM) requires an understanding of the fundamental nature of the model and its parameters. It is important that students not only be able to mechanically "plug and chug" the formula, but that they also understand the model's assumptions, inputs, sensitivity to error and practical limitations. This paper demonstrates that the valuation measure derived from using the DDM is very sensitive to the relationship between the required return on investment (Kg) and the assumed growth rate (g) in earnings and dividends. Examples show that the valuation error increases at an increasing rate when the values of K. and g converge in the formula. Classroom experience has indicated that students believe and strive to compute a single "correct" valuation of the share price. They should realize that the goal of valuation analysis is to estimate a reasonable range for the intrinsic value of a share price, rather than a single point estimate as often implied by end-of-chapter and exam-type problems using the DDM.

Learning By Doing: Offering a University Practicum in Personal Financial Planning (pp. 293-303)

Thomas H. Eyssell

Given the importance of interpersonal relationships in the financial planning process, it is surprising that relatively few registered financial planning programs explicitly provide students the opportunity to meet with real clients on a one-to-one basis. This paper describes the structure of a financial planning practicum developed for the purpose of providing such experience to future financial planners. It is hoped that this information will encourage others to consider offering experiential learning opportunities to those seeking positions in the financial services industry.

The Internet in the Personal Finance Course (pp. 305-317)

Walt Woerheide

A revolution is occurring as textbook authors struggle with how to effectively incorporate the Internet into the personal finance textbooks and Course. This paper considers three questions associated with this revolution. What is the current degree of Internet integration? Where might we be headed with this new technology? Will this integration make for a better Course? The current degree of Internet integration is reported in Tables 1 and 2. An argument is made that we may be headed to an eventual elimination of the textbook, as we know it. There is some preliminary evidence that this will make for a better educational experience.

Applications of WWW Technology in Teaching Finance (pp.319-328)

Stuart Michelson

In this article we discuss the need for a personal Web page in finance education, some of the ways Web pages can be used to benefit students, and present a survey of Web page use. We follow with a discussion of how to create and modify a Web page using commonly available computer programs. This information allows faculty the ability to provide valuable and timely information and materials for students.