FROM THE *Managing Editor*

KEVIN DAVIS SF Fin, Professor of Finance, University of Melbourne
Research Director, Australian Centre for Financial Studies and Professor of Finance, Monash University

This issue of *JASSA* includes a number of articles focusing on critical issues in relation to superannuation, retirement adequacy and financial advice. The second half of this issue also includes edited versions of several papers presented at the 18th Melbourne Money and Finance Conference — Financial Sector Evolution: Prospect and Determinants — held in July 2013. The conference was organised by the Australian Centre for Financial Studies and sponsored by ANZ, APRA, the Reserve Bank of Australia and Finsia. While not subject to the usual double-blind process, each of these papers was reviewed by a member of the Editorial Board and by me prior to publication.

The paper by Anup K Basu, Brett M Doran and Michael E Drew SF Fin highlights the extent to which sequencing risk can represent a threat to retirement nest eggs. It shows that it is the realised sequence of returns which largely determines the sustainability of retirement incomes not the accumulated average of investment returns, as suggested by conventional wisdom. The authors indicate that for those who are near retirement (or have recently retired), the dollar-weighted impact of a GFC-like event on their retirement nest egg can be much larger than that for younger generations. They find that even muted levels of bad volatility, occurring at the worst time, can have a significant impact on members' retirement savings and it is not necessarily the magnitude of the negative return that matters, but its timing. They also note that in order to improve retirement outcomes for members there is a need to ensure that the conversation about the management of sequencing risk, which often occurs during the critical retirement conversion phase, is brought forward to be at the heart of defined contribution plan design and governance.

Next, Vitali Alexeev and Francis Tapon examine the issue of how many stocks Australian investors need to hold to achieve a well-diversified portfolio. Noting that the average Australian investor only holds around two securities, as indicated in a recent ASIC survey, Alexeev and Tapon conclude that the size of a well-diversified portfolio for Australian investors depends on the measure of risk used, the changing correlations between stock returns across time and market volatility. They indicate that in periods of anticipated high market volatility characterised by large correlations among stocks, conservative investors will need to add a relatively large number of securities to their portfolios compared to periods when markets are fairly stable and average correlations are low. The authors find that, on average, 24 to 30 stocks are sufficient to achieve a well-diversified portfolio.

With disclosure being widely viewed as important for the efficient functioning of capital markets, the paper by Angela Andersen, Aaron Gilbert and Alireza Tourani-Rad F Fin explores the impact of infringement of continuous disclosure by Australian listed firms. The authors observe a significantly negative market reaction for sample firms around the day an infringement is announced and their findings also provide partial evidence of an increase in spreads and a decrease in price informativeness following the announcement of a breach. Overall, their results indicate that the market considers the breach of continuous disclosure to be a relatively important incident. After observing few breaches in the sample period, the authors suggest the continuous disclosure regime in Australia is functioning well.

The issue of retirement adequacy is taken up again in the first of the papers from the Melbourne Money and Finance Conference. The paper by John Burnett, Kevin Davis SF Fin, Carsten Murawski, Roger Wilkins and Nicholas Wilkinson presents two metrics (the consumption shortfall and the age gap) to assess the adequacy of retirement savings and estimates these metrics for a representative sample of the Australian population aged 40 to 64. The authors note that these estimates support the widely held belief that most individuals are not 'on track' to achieve a comfortable standard of living in retirement, and that couples appear better prepared than singles. With individuals often facing difficulties in understanding whether their pre-retirement savings behaviour will ensure adequate retirement consumption levels, the authors believe that the metrics presented in this paper may provide a better way to communicate adequacy to individuals, and encourage increased saving.

Hazel Bateman and Geoffrey Kingston focus on another important issue for policy makers in relation to retirement savings: they argue that there is a need to restore a level playing field for defined benefit funds. Bateman and Kingston believe that in the push for universal coverage of accumulation superannuation plans some valuable characteristics of defined benefits have been overlooked. They indicate these advantages include scope for efficiency gains in bargains between employers and employees, certainty and simplicity of retirement benefits, and better management of investment and longevity risk. Bateman and Kingston suggest that several policy measures have unduly weakened defined benefit schemes, especially in the private sector. They believe that rescinding these measures would revitalise defined benefit, and produce a deeper market for privately-managed, lifetime annuities.

The paper by Tom Valentine considers the adequacy of Future of Financial Advice (FoFA) reforms which are being implemented following widespread dissatisfaction with financial and investment advice. He says that while the reforms are a step in the right direction, they have not addressed some important fundamental problems — the fragmentation of investment advice, horizontal integration (that is, links between product providers and the advisory function), the educational requirements for advisers and attempts to educate the public on investment. He also believes that the reforms should be adjusted to limit (rather than discourage) leverage, and the distinction between retail and wholesale clients should be eliminated.

In the final paper, Tariq Haque explores the risk-on risk-off (RORO) paradigm and the implications for investors in the Australian stock and bond markets. Indicating that the effect of this paradigm is that diversification benefits are significantly diluted and equity-only or bond-only portfolios have significantly higher volatility, he says these effects were present in Australian and international financial markets from July 2007 to December 2012. Haque finds that a risk-parity portfolio which combines both equities and bonds generates a higher Sharpe ratio than investing in either equities or bonds alone over a sample period incorporating both RORO and non-RORO periods.

Finally, I am very pleased to announce that JASSA is now ranked as a 'B' journal in the Australian Council of Business Deans journal listing, and we hope that this will encourage many more submissions in the future from academics, policy makers and finance practitioners. Please note that the guidelines for submission to JASSA are available at www.finsia.com ■