FROM THE
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With growing numbers of baby boomers entering retirement age, and widespread concern about the adequacy of their retirement incomes, this issue of JASSA explores several related themes: investment performance; financial risk-taking; and financial literacy. As part of this issue, we also include edited versions of several papers presented at the Personal Finance and Investments Research Symposium held in October 2013 by Griffith University. 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 inclusion.

First, the paper by Robert J Bianchi SF Fin, Michael E Drew SF Fin, Michael D Evans and Adam N Walk SF Fin examines the distinction between time-weighted returns (TWRs) and more comprehensive measures, and compares a number of extant investment strategies employing a range of performance and risk measures from each category. The paper highlights the need for boards of trustees and their advisers to know when to use the appropriate measurement basis. The authors suggest that while appropriate in certain circumstances, time-weighted returns — and the performance and risk measures derived from them — provide an incomplete picture when evaluating certain practical financial problems like retirement investing. They find that time-weighted measures overlook important aspects of retirement investing, whereas wealth-denominated, target-relative measures more accurately capture the dynamics of retirement investing.

While the application of artificial neural networks (ANN) to finance is still a relatively new area of research, a study by Andrew J Ashwood and Anup K Basu assesses whether ANNs are helpful in the quest for alpha. The authors use both fundamental and technical inputs to predict future prices of widely held Australian stocks and use these predicted prices for stock portfolio selection over a 10-year period (2001–11). They find that the ANNs generally perform well in predicting the direction of stock price movements. The stock portfolios selected by the ANNs with median accuracy were able to generate positive alpha over the 10-year period. More importantly, the authors find that practitioners can improve the likelihood of generating positive alphas using neural networks even without any ex ante knowledge about their accuracy as many of the network configurations resulted in positive alphas while none resulted in a negative alpha with statistical significance.

The paper by Tram Vu and Viet Do provides an overview of the Australian syndicated loan market and outlines the merits of standardisation of syndicated loan contracts as a first step towards creating a liquid secondary loan market. The authors discuss how standardisation of these contracts would also create opportunities for new institutional participants to enter the syndicated loan market. Noting that a market for trading loans can serve as an effective risk management tool, the authors suggest that it would also provide opportunities for investors, both bank and non-bank, to diversify their portfolios and access currently unavailable forms of credit risk for higher expected yields. They indicate that efforts to develop a secondary bond market should be complemented by efforts to encourage a secondary syndicated loan market, with policies designed to standardise syndicated loan contracts being a good first step towards this.

In the first of the symposium papers, Tracey West and Andrew C Worthington use canonical correlation analysis to examine the relationships between financial risk-taking (as measured by self-reported financial risk-taking attitude, direct share ownership, and business ownership) and personal attributes such as age, gender, education, household structure, income and wealth. West and Worthington find that although all three measures are good indicators of financial risk-taking, direct share ownership is influential as a whole, followed by self-reported risk-taking, and finally business ownership. The results indicate that wealth explains more than 80 per cent of variation in financial risk-taking, with the next two most important personal attributes — income and education — each accounting for less than 20 per cent of any variation.

Next, Dianne Johnson, Andrew C Worthington and Mark Brimble examine the current and potential utilisation of home equity in supporting retirement incomes and healthy ageing in Australia. The authors argue that the role of housing equity as a pillar of retirement income needs to be expanded. They suggest that with the perfect storm of 5.5 million baby boomers turning 65 and entering retirement between 2010 and 2029, holding the bulk of their wealth in housing, and living longer due to health advances (at a cost), the significance of housing equity is apparent. They say that new housing equity decumulation products and more consumer support in planning for possible cash flow crises may help retirees 'keep the wolf from the door' in later retirement when other sources of income have been used.

Levon Blue and Mark Brimble explore the evidence on outcomes and concerns over financial literacy education (FLE) within the literature and link this with their experiences in delivering FLE. They develop a model of FLE which seeks to achieve alignment between the expectations of FLE and its actual delivery and content. This model provides a structure that maps the journey of the individual from financially illiterate to financially capable, while acknowledging the fact that in the vast majority of cases effective financial decision making involving anything other than the most basic of products will require some form of independent financial advice. They argue that development of FLE programs aligned with such a structure will have a much better chance of success in terms of improving financial decision making and, ultimately, financial well-being.

On a similar theme, the paper by Toni Chardon explores overall confidence in relation to tax and superannuation issues within the context of financial literacy. Chardon argues that although financial literacy has become an important focus for government and other stakeholders, taxation and superannuation issues have largely been excluded from both the measurement and education aspects. This is despite the fact that research in Australia has shown lower levels of literacy in relation to superannuation than in other areas, and that financial confidence tends to be lower for more complex areas. The author suggests that these aspects should be incorporated into future financial literacy education strategies and research.

Finally, Jeremy Cooper SF Fin, Aaron Minney and Philip Sainsbury present a model of portfolio construction for retirement income based on a strategy of layering income to target changing spending needs at different stages of retirement. The authors argue that a bucket approach can help retirees set desired levels of expenditure, above their required minimum, for the different stages of retirement. They believe that this is a practical approach that financial advisers can implement with retiree clients to meet their spending requirements.

The papers in this issue of JASSA provide excellent insights into a number of critical issues on personal finance and investment, and should provide a strong contribution to current policy debates in these areas. With JASSA now ranked as a 'B' journal in the Australian Council of Business Deans journal listing, we hope that this will encourage many more submissions through the course of this year. Please note that the guidelines for submission to JASSA are available at www.finsia.com