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2020 Academic Research Colloquium for Financial Planning and Related Disciplines

Research Implications Sessions: The "So-What" of the Research to Practice

Two panel sessions will focus on the implications of the presented research papers on financial planning practice. Each session, comprised of three authors and a practitioner-scholar as a facilitator, will strictly focus on the "so-what" of the research papers presented at the 2020 ARC. The sessions, designed solely to promote dialogue amongst authors and attendees, will be led by Dr. Ron Sages, CFP®.

Consumer Perceptions of Financial Advisory Titles and Implications for Title Regulation
Derek Tharp, CFP®
University of Southern Maine

Many professionals in the financial services industry refer to themselves as financial advisers despite tremendous variation in business practices, compensation methods, and duties to act in the best interest of their clients. As a result, both the Securities and Exchange Commission (SEC) and state securities regulators have recently considered title regulation aimed at promoting consumer clarity. However, there is little empirical evidence to inform how consumers actually perceive the use of such titles. This study examines consumer perceptions via a survey of US consumers conducted using Amazon's Mechanical Turk (n = 665). Findings suggest that consumers perceive common industry titles as different from one another in a manner that is consistent with the differentiation of advice professions (e.g., financial adviser, financial planner, financial consultant, investment consultant, investment adviser) from sales professions (e.g., investment salesperson, stockbroker, life insurance agent). Implications regarding the potential efficacy of proposed regulatory frameworks are discussed.

A New Measure of Investor Risk Aversion
John Grable, CFP®
University of Georgia

This paper introduces a new measure of investor risk aversion. The single-item question combines elements from traditional constant relative risk aversion estimation procedures with aspects from propensity measurement techniques. Based on pilot test data, scores from the new test were found to correlate with others measures of risk aversion. Additionally, in line with the risk-assessment literature, men were found to exhibit less risk aversion than women. The simplicity and intuitive nature of the question make this a potentially valuable addition to an investor's and/or financial planner's toolkit.

Based on these initial results and conclusions, a larger survey of investors is in process. Results from the data collection process will be presented at the conference.

Bigger is Better: Defined Contribution Menu Choices with Plan Defaults
Michael Finke, CFP®
The American College

Prior studies of core menu size find that fewer available core menu investments improve employee participation rates by reducing choice overload. Today's plans often opt employees into high-quality investment defaults. Increasing the number of investments on a core menu may encourage less experienced investors to remain in the default, and may benefit participants who prefer to customize their own portfolio. Using data from over 500 defined contribution (DC) plans with over half a million participants where core menus vary between approximately 10 and 30 investment options, we find that acceptance of the default investment option increases by approximately 1% for each additional fund in the core menu. Portfolio efficiency increases among participants self-directing their accounts in plans with larger core menus because the number of average holdings increases with plan size, resulting in more diversified portfolios. Our results provide evidence that small plan menus encourage participants to move away from the default, and fewer investment options result in less efficient portfolios for self-directed participants.

Using Behavioral Prompts to Improve Saving and Investing Decisions
Vickie Bajtelsmit
Colorado State University

The objective of this research is to enhance understanding of the behavioral biases that may adversely impact younger generations' financial outcomes. Research based on national survey data suggests that differences in overconfidence, financial literacy, risk preferences, and present bias all impact saving and investment decisions. In an incentivized laboratory experiment, subjects make investment and asset allocation decisions over a meaningful time horizon. We test the efficacy of alternative behavioral prompts to motivate optimal saving decisions. Specifically, we consider the effects of invoking the future self, setting goals in advance, and provision of advice. A major contribution of this research is that we assess the impact of various interventions while controlling for idiosyncratic time preferences, risk tolerance, overconfidence and financial literacy.

Does working with a financial advisor reduce financial anxiety and increase investment confidence
Matthew Sommer, CFP®
Kansas State University

The purpose of this paper is to investigate whether working with an advisor decreases financial anxiety and increases investment confidence. Using data collected from 1,005 U.S. households, we found no evidence that working with an advisor impacts anxiety; however, strong evidence was found that investor confidence increases. Further, couples that make decisions jointly were found to have

significantly more investment confidence than couples where one partner makes decisions alone. These findings highlight an additional benefit advisors provide to their clients, and a compelling reason for couples to consider making financial decisions jointly.

Rating a Robo-Rater

David Nanigian, CFP®
California State University, Fullerton

Since 2011, Morningstar has issued Morningstar Analyst Ratings on many of the largest mutual funds in the USA. In June 2017, Morningstar launched the Morningstar Quantitative Rating™ to provide a forward-looking rating on all mutual funds. Morningstar uses a "robo-rater" machine learning model to assign Morningstar Quantitative Ratings. However, the "robo-rater" cannot utilize the complete set of information available to Morningstar's analyst as it cannot process "soft information". The purpose of this study is to evaluate if and how this "robo-rater" is conducive to mutual fund selection. I find that the only value of the "robo-rater" is in its assessment of mutual fund expenses and that its inability to process "soft information" makes the Morningstar Quantitative Rating™ much less useful than the Morningstar Analyst Rating™.