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EDITOR'S NOTE

Margaret M. Towle, PhD

Nothing in life is to be feared, it is only to be understood. Now is the time to understand more, so that we may fear less.
—Marie Curie

Thomas L. Friedman in his latest book, *Thank You for Being Late*, references the wonderful quote shown above. To me, Curie is saying that knowledge is power, and it gives us the ability to face uncertainties with confidence. Friedman's book focuses on the major forces affecting the planet today (technology, globalization, climate change, biodiversity loss), but our task is a bit more manageable.

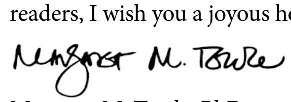
Addressing the myriad issues related to the retirement bulge of baby boomers ranks near the top of the list. Approximately 10,000 baby boomers each day are expected to leave the workforce between now and the end of the decade. More than half will rely on Social Security as the major source of retirement income. We can attribute a portion of retirement problems to poor planning on the part of workers. However, even those individuals who recognize the importance of retirement planning—and might even engage a financial advisor—soon learn that estimating the savings needed for retirement is complex. In fact, a new set of challenges emerges once in the distribution phase. Sadly, many retirees are intellectually and emotionally unprepared to manage their retirement assets during distribution. Even those who turn to an advisor may not be immune from the risk of a shortfall, because no effective distribution model or proven process guarantees success.

Two of the articles in this issue provide a knowledge base for advisors to begin to view retirement in a different light. James Sandidge, in "Adaptive Distribution Theory," believes that the advisor's role increases in importance during the distribution phase. As such, it requires advisors to abandon old assumptions, such as the benefit of static portfolios and the process of systematic withdrawals. For Sandidge, inflation risk during retirement is overstated, because consumption generally declines. To Sandidge, there is no need to engage in the active versus passive debate. Instead, he believes that advisors must use a dynamic process to manage portfolio risks and cash flow. If not, clients face the possibility of a significant shortfall during retirement. Goals-based investing may sound like a new solution, but to Sandidge it is not, because the process is built around irrelevant assumptions geared toward accumulating wealth rather than distributing wealth. In other words, the efficient frontier is inefficient for retirees.

Arun Muralidhar, Kazuhiko Ohashi, and Sunghwan Shin also see a looming retirement crisis around distribution. The authors address distribution shortfall through an innovative financial instrument, a forward-starting bond. Within the context of a defined contribution plan, forward-starting bonds provide a guaranteed return on contributions resulting in a defined benefit-type outcome for retirees. This yet-to-be-created bond potentially could help retirees hedge retirement income risks during distribution, and in addition, may provide significant benefits to the government issuing the bonds.

Included in this issue is the winning paper of the 2016 *Journal of Investment Consulting* Academic Paper Competition, "Cloaked Trading." Authors Lauren Cohen, Dong Lou, and Christopher Malloy explore a portfolio management topic in an insightful and original manner. Drawing on a proprietary database of micro-level trading activity, they found strong evidence that asset managers—specifically those managing mutual funds—engage in strategic trading to "cloak" their most valuable trades. The authors conclude that cloaked trades enhance returns and are informative about fundamental firm value, which is gradually revealed in prices.

As we close this year, I would like to thank the members of the editorial committee and the JIC staff for their perceptive insights and detailed review of the content. In addition, to all of our readers, I wish you a joyous holiday season!



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Editor-in-Chief, *Journal of Investment Consulting*

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