To be a winning investor, know the risks

By Chuck Jaffe, MarketWatch

BOSTON (MarketWatch) -- Challenges are more fun when you're winning. You don't need an academic study to know that.

Yet a pair of studies on investor behavior released last week not only showcase the obvious — that investors remain wary about taking on stock-market risk — but make you hope that your dollars as a fund shareholder or taxpayer are not paying to foot the researcher's bill.

Saving for college gets simpler

Despite the recession, more Americans are saving for college. Jillian Mincer of Dow Jones Newswires talks with 529 college savings consultant Andrea Feirstein about what families can do to make it easier.

Behind the obvious answers, however, is a real concern, namely that investors are doing what feels good, rather than what most experts believe is right. If you fall into that category, you may want to toughen up and learn from the mistakes of others.

First, the research:

An annual survey by the Investment Company Institute showed that mutual fund shareholders' overall willingness to take investment risk has not rebounded since the financial crisis of 2008.

Some 30% of fund investors were willing to take substantial or above-average risk trying to register financial gains this May, down from 37% in May 2008, a few months before the financial crisis hit. The ICI, the fund industry trade association, noted that the decline in risk tolerance between May 2008 and May of this year showed up across all age groups, but was more pronounced with older investors, who reported a much lower risk tolerance than their younger peers.

Meanwhile, a University of Missouri study published in the Journal of Economic Issues showed that investors have become wary about taking risks with the stock market while the U.S. economy has been lagging, and that risk behavior has been tied to market returns for a long time.

Rui Yao, a University of Missouri assistant professor in the Personal Financial Planning department, found that over the last two decades, people invest more when market returns...
are high, and withdraw partially or even completely from the market when returns are negative.

Hardly a surprise, but proof according to Yao that investors are buying high and selling low, thereby getting the worst of the market.

"To maximize returns, the ideal strategy is to buy stocks at a low price, with the hope of selling them at a higher price," Yao said. "However, many investors seem to be unwilling to take risks when the market is at a low point and seem content to only invest when the market is at a high point."

The problem with these studies is that they are designed to measure risk tolerance, when the real problem is that most investors misunderstand risk itself. People will say they can tolerate risk, so long as they don’t experience losses. They will settle for a near-zero return in a money-market fund because it’s “better than posting a loss,” without recognizing that they are losing buying power — ultimately the same impact as a loss — every day their investments fail to beat inflation.

What many investors misunderstand is that, when it comes to risk, more is less.

That does not mean someone should rush right out and throw everything they’ve got in the market sectors that are the most hairy; instead, it means that the way to beat back risk is to accept it in different forms.

Understanding five key risks

Most people who want to “avoid risk” actually mean they want to “avoid loss.” Removing everything from the market and put it in their mattress, a piggy bank or a money-market fund — all providing roughly the same return these days — protects against market risk, the chance that a “double-dip,” “soft patch,” “flash crash” or any other incident will drive down the market price of their holdings to where they have a loss.

But that strategy leads to purchasing-power risk, which is the opposite end of the risk spectrum, the chance that their money doesn’t grow fast enough to keep pace with inflation.

There’s also interest-rate risk, a key factor in the current rate environment. Investors face potential income declines when a bond or certificate of deposit matures and they need to reinvest the money. Juicing returns using higher-yielding, longer-term securities creates the potential to get stuck losing ground to inflation if the rate trend changes.

Another concern is “shortfall risk,” which has more to do with the individual investor than the markets. This is the possibility that someone won’t have enough money to reach their goals. Many investors take this risk when they are too conservative during troublesome market times or too aggressive when things are good. Investors who were whole-hog into tech stocks during the Internet bubble got hammered when it popped; today’s sideline sitter, conversely, might be missing out on low-priced stocks as they wait until they’re more comfortable.
Finally, there’s timing risk, which is not so much about when you are buying or selling as it is about your personal time horizon. To put it simply, the chance of stocks making money over the next 20 years is high; the prospects for the next 18 months are murky. If you need money at a certain time, this risk must be factored into your asset allocation.

If the studies show anything, it’s that investors definitely don’t understand opportunity risk. Consider this the greed factor, the chance of missing out. Opportunity risk runs against innate human psychology, as people perceive opportunities at just the wrong times. They’ll jump to buy when the market is at the end of a good run and hesitate when the market has fallen to lows that have put quality companies on sale.

Even after all of those risks, there’s currency risk, credit risk and more.

Each and every type of risk deserves some consideration in portfolio construction.

So if you are the investor described in those studies, the question should not be whether you are avoiding risk given current market conditions, but whether you have accepted enough different forms of it.

Said Yao: “Having the ability to understand risks and assess risk tolerance has a direct impact on individual well-being.”
Problem gamblers may recover without quitting

Wed, Oct 6 2010

By Amy Norton

NEW YORK (Reuters Health) - Pathological gamblers may often be able to recover from their destructive habits without giving up gambling altogether, a new study suggests.

Researchers found that among nearly 4,800 Australian adults they surveyed, the 44 men and women who appeared to be recovering pathological gamblers had largely beat their problems without completely giving up the habit.

Ninety percent were still sometimes playing the lottery, hitting the casino or betting on sports -- despite no longer screening positive for problem gambling.

The findings, reported in the journal Addiction, are in line with what has been seen in the treatment of alcohol abuse. That is, some people in recovery can successfully cut back on drinking, rather than abstaining completely. This approach is sometimes referred to as "harm reduction."

And the results suggest that problem gamblers, too, can recover even if they do not quit altogether, lead researcher Dr. Wendy S. Slutske, of the University of Missouri in Columbia, told Reuters Health by email.

Traditionally, abstinence has been the cornerstone of treatment for pathological gambling, being strongly espoused, for example, by the support group Gamblers Anonymous. But recent research has suggested that therapy aimed at "controlled gambling" can be effective.

This is important, Slutske's team notes in the report, because if controlled gambling, rather than complete abstinence, is a treatment goal, it's possible that more pathological gamblers will seek help.

The current findings are based on phone interviews with 4,764 Australian twins who were part of a national registry used for health-related research. All completed a standard questionnaire that screens people for lifetime and more-recent gambling problems.

Some signs of pathological gambling include a preoccupation with gambling, feeling the need to take increasingly bigger risks, taking time from work or family life to gamble, and hiding the habit from others.
In this study, 104 participants, or about 2 percent, screened positive for a lifetime history of pathological gambling. Of those men and women, 28 screened positive for the problem in the past year, while 32 met only some of the criteria for pathological gambling in the past year, and were considered problem gamblers.

Another 44 men and women did not report any symptoms in the past year; they were considered the "recovery" group.

Of that recovery group, 90 percent said they still gambled at times -- though considerably less often than their counterparts who did report symptoms in the past year. For example, people in the recovery group gambled on an average of 54 days in the past year, versus 176 days among those who screened positive for pathological gambling in the past year.

The study has its limitations, including the fact that it assessed participants at one time point. A study that follows people over time, Slutske and her colleagues note, could help uncover the factors that allow some gamblers to recover "in the absence of abstinence." It could also show whether their recoveries last for the long haul.

"I don't think that we know yet how people (in recovery) are able to continue to gamble without problems," Slutske said, "and more research might be needed to answer this question."

The current study lacked information on how people in the recovery group had gotten to that point. In general, Slutske said, some pathological gamblers are able to cut back without any formal therapy -- though they may well do so with the support of family and friends, she added.

Some others, Slutske noted, see their gambling problems "spontaneously remit" owing to changes in their lifestyle or environment.

Formal treatment often involves cognitive behavioral therapy, which aims to identify a person's unhealthy thinking patterns and replace them with more positive ones, as well as offer practical ways to alter negative behavior. Studies have shown that certain medications, including antidepressants or drugs called narcotic antagonists, which are used to treat substance abuse, can be helpful for some people.

Slutske said that if more studies continue to support the effectiveness of controlled gambling as a treatment goal, it should lead to wider acceptance of the approach.
COLUMBIA MISSOURIAN

MU chancellor, top administrators talk to faculty about program reviews

By Walker Moskop
October 6, 2010 | 10:37 p.m. CDT

COLUMBIA — MU Chancellor Brady Deaton said the review of "low-producing" degree programs is intended to seek out ways to improve the quality of state institutions during a fall faculty meeting Wednesday afternoon with several dozen MU faculty.

Later, in an interview, Deaton said the possibility of consolidating and merging programs "in no way suggests reducing faculty at all."

Combining smaller programs would actually increase the demand for teaching and research and would have a positive impact overall, he said.

MU has until Oct. 21 to provide the state's Coordinating Board for Higher Education its recommended actions for 75 programs that failed to meet the productivity criteria established by the board.

“This is happening on a much faster deadline than any of us would like, but it is only a preliminary (step),” Deaton said. “We need some sense from all of you, from our deans, from department chairs, in looking at these programs – what should we be saying about them? Are we using our resources most effectively? ... Are they among our best programs? I don’t think any of us have any sense of (the answers to these questions).”

Programs were included in the list if they didn’t meet the board’s criteria of producing 10 graduates per year at the bachelor’s level, five graduates per year at the master's level and three graduates per year at the doctorate level, all calculated over a three-year average.
Deaton said Gov. Jay Nixon is essentially asking state institutions to explain what the data in the list of programs means. He said the state wants a report on what programs could be consolidated in a way that would strengthen institutions.

Deaton said MU Provost Brian Foster has been working with deans, the Faculty Council and other campus groups to assess the review process and develop a framework for evaluating degrees that have been deemed "low-producing."

"Help us with (this)," he told faculty. "You're the experts on this."

Program review was only one issue among many addressed during the meeting.

Faculty Council Chairwoman Leona Rubin talked to her colleagues about potential changes in employee retirement benefits.

She stressed that if MU were to switch from its current defined benefit program to a defined contribution program, the change wouldn't apply to current employees — only future hires.

MU Budget Director Tim Rooney said the state's funding outlook is a big unknown as MU plans for 2012.

He said MU is expecting a 5 percent to 15 percent reduction in state funding for 2012, which would result in a $10 million to $31 million decrease in revenue. However, Rooney said the state expects a 6 percent jump in revenue in 2012.

Rooney said MU plans on increasing tuition rates, which he said would mean appealing a Missouri law mandating that tuition can't increase at a higher rate than the consumer price index. The CPI has increased by only 1 percent for fiscal year 2010, Rooney said.

He underscored that MU needs to ensure enrollment isn't affected by a rise in tuition.

Rooney said a 10 percent projected increase in the cost of Social Security benefits is another significant factor that must be considered.

"I think that the fiscal year 2012 budget will perhaps be the most daunting budget that we've had to ever work through," he said.
COLUMBIA MISSOURIAN

First Missouri Technology Expo kicks off at MU

By Asif Lakhani
October 6, 2010 | 8:13 p.m. CDT

COLUMBIA — The first Missouri Technology Expo is coming to MU on Thursday.

The exposition is a networking event for businesses and researchers to help forge connections for future investments and collaborations.

“Our responsibility here is seeing the innovations developed by our researchers have the ability to impact society,” said Chris Fender, director of the MU Office of Technology Management and Industry Relations. “We wanted to create an event to showcase those innovations and bring the right people together.”

Fender's office is one of four sponsors of Thursday's event, along with the MU Office of Research, the University Center for Innovation and Entrepreneurship and Columbia Regional Economic Development Inc.

Stephen Padgette, vice president for biotechnology at Missouri-based Monsanto Co., will deliver the keynote address.

The exposition, which will be held at the Christopher S. Bond Life Sciences Center on Rollins Street, will include more than 25 booths from businesses seeking investors and 30 posters by researchers looking for collaboration and commercialization of their work.

Six businesses will also make 15-minute presentations: Organovo, NEMS/MEMS Works LLC, Verapulse, Advanced Spectroscopic Technologies, Cardialen and Nanoparticle Biochem Inc. Each business was founded on a technology developed by a Missouri university. Some attendees will make short “elevator pitches” on engineering, life sciences and biomedical topics.
Educational seminars on intellectual property and entrepreneurship will also be offered for students.

So far, 250 people are signed up for the event, and more are expected to register at the door Thursday. The registration fee is $30 for those attending the event all day. A parking pass for Virginia Avenue Garage is available for an additional $5.

Students and others from the community may attend sessions for free.

A live stream of the exposition can be viewed at the Missouri Research and Education Network website.
U. of Missouri Graduate Wins Chronicle Journalism Award

By Alexander C. Kafka

Washington

The Chronicle has named Michael Sewall, who earned his bachelor's degree in journalism in the spring of 2010 from the University of Missouri at Columbia, the winner of the David W. Miller Award for Young Journalists.

Mr. Sewall won the $1,000 prize for three articles published in The Chronicle during his summer internship. In making its selection, the award committee noted his versatility, the depth of his reporting, and his eye for telling quirky details. In reporting on a study by the Migration Policy Institute, Mr. Sewall explained why the proposed Dream Act would help considerably less than half of the 2.1 million undocumented immigrants estimated to meet its legal requirements. In an article featuring a sociology graduate student doing hard-charging field research as a roller-derby skater, Mr. Sewall explored the nexus between a derby revival, academic interest in it, and the sport's place in evolving notions of feminism, gender, and networking. And in an obituary, Mr. Sewall outlined how the climate-change expert Stephen Schneider would be missed not just for his research but also for his talents as a teacher and an accessible, enthusiastic advocate for environmental efforts.

Informed on Tuesday that he had won the Miller Award, Mr. Sewall recounted that he had tracked the legislative progress of the Dream Act for smaller stories throughout his internship and, he said, "when I finally got to do my own comprehensive piece toward the end of the summer, it meant a lot to me."

Raised in the Western Springs suburb of Chicago, Mr. Sewall has returned to the area as the New Lenox editor for the local-news Web network Patch.com. "I love the city, so I definitely wanted to return there," he said. New on the job, he said his "biggest challenge will just be getting to know this community. I'm driving around town looking at everything right now, introducing myself to people."
The Miller Award honors David W. Miller, a senior writer at *The Chronicle* who, in 2002, at the age of 35, was killed by a drunken driver.

With the award, *The Chronicle* seeks to honor Mr. Miller's insistence on responsible journalism, curiosity about people and ideas, and talent for writing. *The Chronicle* also hopes to recognize future generations of reporters who show those qualities.