

Three essays on the use and value of financial advice

Three Essays on the Use and Value of Financial Advice

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Abstract

Using longitudinal data from two national datasets, we provide new insights about the use and value of financial advice, especially regarding the use of professional financial advice in retirement accumulation and distribution decisions. For the first essay focusing on accumulation decisions, we use data primarily from the 2004 and 2008 administrations of the National Longitudinal Survey of Youth (NLSY). We find that greater cognitive ability and having a financial planner are both positively related to Roth IRA ownership and to earlier Roth IRA adoption. Our results suggest that the complexity of a tax policy may limit its ability to modify individual behavior in the ways envisioned by policymakers.

The second essay includes the first analysis of panel data showing factors associated with beginning and discontinuing the use of a financial advisor among older adults. Using the 1993 and 1995 waves of the Asset and Health Dynamics among the Oldest Old (AHEAD), we find getting a financial advisor is significantly associated with becoming a widow or widower. We also find positive associations with asking family members for assistance with financial decisions and seeking a doctor's help for emotional problems. Increases in income and net worth are also positively related to getting a financial advisor. Dropping a financial advisor is negatively associated with becoming a new widow(er), getting married, and experiencing an increase in net worth. No longer involving family members in financial decisions is also strongly related to dropping a financial advisor.

The third and final essay analyzes the impact that financial advisors have on actual wealth retention and consumption decisions among older adults. Using data from the AHEAD, we look at the relation between using a financial advisor and net worth among respondents 60 years old and older. We find that using a financial advisor is significant and positively related to subsequent net worth, especially on net worth values more than a decade after initially reporting the use of professional financial advice. Having a financial advisor is also positively associated with current and subsequent investment returns, and a large driver of the difference in returns comes from differences in portfolio allocations. Specifically, we find evidence that having a financial advisor is associated with a greater allocation to equities. Taken together, these results provide evidence that financial advisors provide financial and non-financial benefits to individuals who use their services. Frequently, the quantifiable benefits of their services may only be realized when considering long run financial outcomes.

Availability

Unrestricted.

Keywords

Financial advice, Financial planner, Financial advisor, Roth individual retirement account (IRA), Cognitive ability, Bounded rationality, Financial help seeking, Retirement

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