Briefly Noted

Activist Investors Go Public to Prod Company Executives

Dissident shareholders who publicly disclose their letters to management may be doing so with the intention of reaching a wider audience. The investors may actually be reaching out to fellow large shareholders in hopes of attracting allies.

According to FactSet, engaging a company's management team in order to indirectly reach out to other shareholders is no longer necessary. Whereas in the past, costs and strict regulations limited the amount of information an activist investor could disseminate, changes in regulations and policy, as well as the advent of the Internet, lowered the barriers. Now activist shareholders no longer have to file a proxy statement in order to threaten a proxy fight.

The changes have made the public disclosure of letters sent to a company's executives or its board of directors commonplace. FactSet calculates that an average of 64% of all proxy fights since 2006 have included a publicly disclosed letter to the company from an activist investor. The decision to disclose a letter varies by firm, however. Icahn Associates has disclosed its letter in 78% of proxy fights and Starboard Value has done so 69% of the time, while Western Investment has only disclosed its letters in 39% of proxy fights.

There appears to be a pattern of success with releasing the letters. In 101 out of 173 activist campaigns, the investor labeled as being the dissident by FactSet SharkRepellent won the challenge. Letters were also publicly disclosed in 67% of the proxy fights that were settled before a shareholder vote occurred. This suggests public disclosure could be part of a broader plan to get a company to agree to changes.

FactSet acknowledges that there could be other motivations behind utilizing public disclosure. An activist investor firm may release its letter to bring media attention to a specific issue. Publicly releasing the letter can also reveal the true intent of the activist investor. Doing so would be logical when a company alleges that the activist's demands are not in the best interest of all shareholders. FactSet clarifies this last suggestion by pointing out that activists disclosed their letters in 78% of situations where the dissident had the support of Institutional Shareholder Services. (ISS is a proxy advisor to institutional investors).

Source: "In Proxy Voting, Public Disclosures Often Lead to Private Agreements," Anthony Garcia, FactSet Insight, January 5, 2015.

Confidence in Financial Skills Unaltered by Worsening Cognitive Skills

Older adults experiencing measured declines in their cognitive skills remain confident about their financial management skills. This was the finding of an analysis of an ongoing study conducted by Rush University Medical Center.

The study of older adults began including a module on financial literacy, confidence and responsibility for making financial decisions in 2010. Individuals diagnosed with dementia at the time of their first decision-making assessment were excluded. The study group was primarily well-educated women with an average age of 83.

Participants were tested on their ability to do basic calculations, their understanding of compound interest and their knowledge of concepts such as the relationship between bonds and interest payments. Participants were then asked how confident they were about their abilities to manage day-to-day financial matters. Finally, participants were asked who was primarily responsible for making their day-to-day financial decisions.

The study's results found a noticeable drop in self-confidence when cognitive skills significantly declined. Yet, the confidence among the same participants about their level of financial knowledge declined much less. More importantly, there was essentially no change in a participants' belief about their abilities to manage their own finances. These participants failed to recognize, or perhaps accept, the fact that their reduced cognitive abilities were impairing their ability to properly manage their finances.

There was, however, a "large and statistically significant increase in the likelihood of getting help with financial decisions" among those with reduced cognitive scores. What wasn't tracked is who was providing the assistance, whether the help was sought or was unsolicited and whether there was any benefit from the assistance. Even though many participants received help with their finances, more than half of study participants with cognitive impairment remained primarily responsible for their finances. Furthermore, more than half received no help other than from their spouse.

The results show the importance of establishing a plan for getting assistance before cognitive impairment incurs. Powers of attorney, trusts and a system of checks and balances (e.g., having a trustee report to one's children) can be helpful in preventing financial harm and fraud from occurring.

Source: "How Does Aging Affect Financial Decision Making?" Keith Jacks Gamble, Patricia A. Boyle, Lei Yu and David A. Bennett, Center for Retirement Research, January 2015.

Gauging Your Psychological Readiness for Retirement

Those near retirement should ask themselves a very important question: Am I psychologically ready to change my lifestyle from being employed full-time to being retired?

It's a big question that often does not receive much attention. Rather, most of the focus on retirement readiness centers on savings. Workers are commonly told to ensure that they have enough money saved to adequately cover their lost wage income. (A rule of thumb is for Social Security benefits, pension plan payments and first-year portfolio withdrawals of 4% or less of savings to cover 73% of preretirement income.)

Yet, retirement not only has a big impact on one's finances, it also dramatically alters a person's day-to-day lifestyle. Failure to take potential lifestyle changes into account and plan for them accordingly can lead to an unsuccessful retirement. This is why Claremont McKenna College professor Ronald Riggio suggests asking four key questions before retiring.

1. Do you enjoy your job? Think about how much meaning and purpose you derive from your current job. Riggio says it is unwise for those who truly enjoy their job to retire without having a new activity offering the same level of passion and satisfaction. An example may be becoming a full-time volunteer with an organization in which you can make a difference.

2. Are you seeking retirement because your job is stressful? If stress or dissatisfaction with your current job is the reason you are contemplating retirement, what you may really crave is a new job and not retirement. This would be particularly true for those who are working types as opposed to leisure types. Riggio says the decision to retire "is about what you value."

3. How dependent is your social life on your job? Retirement can be hard for those whose friends are primarily colleagues or business partners. Similarly, those with careers that involve a considerable amount of personal interaction may find it difficult to make an abrupt shift to a "traditional" retirement lifestyle. It can be better to postpone retirement while developing a social network outside of work.

4. Are you psychologically prepared to retire? Riggio advises realistically considering what your life will be like in retirement before you retire. He suggests thinking about what activities you are currently and passionately involved in since it may be unreasonable to expect that you will suddenly develop a passion for a new activity right after you retire.

Source: "Are You Psychologically Ready to Retire?" Ronald Riggio, Psychology Today, January 9, 2015.

Many Retirees May Benefit From Non-Traditional Strategies

Conventional wisdom suggests two primary guidelines for retirement investing.

The first is that allocations should become more conservative as a person ages. A common rule of thumb calls for an investor's equity allocation to equal 100 or 110 minus his or her age. For example, a 65 year-old's equity allocation should be no higher than 45% under this guideline.

The second guideline calls for a preset, inflation-adjusted withdrawal rate. The most commonly suggested method calls for a retiree to withdrawal 4% of savings during the first year of retirement and then only increase the amount to account for annual inflation. Several studies have confirmed 4%, or percentage amounts close to it, as a maximum withdrawal amount that prevents savings from being exhausted over a 30-year period.

A brief from the American Institute for Economic Research challenges these guidelines. The brief's author argues that the guidelines do not work for the typical person who has saved far less than $1 million. The guidelines also may not work for retirees who will not see a significant improvement in the quality of their life from withdrawals, those who intend (or want) to set aside a sizeable amount of savings to bequeath or those who have planned spending patterns that don't mesh well with a set withdrawal amount (such as remodeling a house early in retirement). Rather, such retirees may be served by following an alternative approach.

The alternative approach can start by splitting savings between what is needed in the short term and what can be set aside for the long term. Short-term savings should be allocated to safe investments such as cash or money market accounts. Long-term dollars (not needed for 20 or more years) should be allocated mostly to stocks.

Those retiring with $200,000 or less may also want to choose an aggressive allocation consisting mostly of stocks. The rationale is that withdrawing 4% out of a $200,000 balance will likely contribute only a small portion to retirement income ($8,000 per year on a pretax basis). Plus, no matter what allocation is followed, the savings are not large enough to likely have a big impact on the retiree's lifestyle.

Source: "Rethinking Retirement Guidelines," by Luke F. Delorme, American Institute for Economic Research, January 2015.