1099-60-45   **Paolo Guasoni**, **Gur Huberman** and **Dan Ren*** (`dren01@udayton.edu`), Department of Mathematics, University of Dayton, 300 College Park, Dayton, OH 45469. *Optimal consumption and investment for shortfall aversion.*

We solve an optimal consumption and investment problem for a risk-averse investor who is sensitive to declines than to increases of standard living (i.e., the investor is shortfall-averse), and the investment opportunities are constant. We use the tools of stochastic control and duality methods to solve the resulting free-boundary problem in an infinite time horizon. Briefly, the investor consumes constantly when holding a moderate amount of wealth. In bliss time, the investor increases the consumption so that the consumption-wealth ratio reaches some fixed minimum level; in gloom time, the investor decreases the consumption gradually. Moreover, high loss aversion tends to raise the consumption-wealth ratio, but cut the investment-wealth ratio overall. (Received January 15, 2014)

1