

**Hong Kong University of Science and Technology
School of Business and Management**

**FINA 399L Personal Financial Planning
Fall 2007**

Course Syllabus

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Course website: <http://webct.ust.hk~fina399L>

Lectures: Tuesdays and Thursdays, 15:00 - 16:20, Room 2612A

PRE-REQUISITES

FINA 111 Financial Management, and
FINA 221 Investment Analysis and Portfolio Management

The investment management materials that we cover in this course make extensive reference to the fundamental investment concepts including the risk and return characteristics of different financial securities and investing strategies, and the modern portfolio theory. You are therefore expected to be familiar with these concepts and quantitative techniques. It is also very important that you are proficient in the spreadsheet program Microsoft EXCEL, as we will be using this program extensively throughout the semester. In addition, you are expected to know how to extract financial data from REUTERS or other reliable data providers.

COURSE DESCRIPTION

This course covers the process of financial planning with a focus on the process of investment advisory. It will explore portfolio management topics from the financial advisor's perspective, discuss client expectations and concerns including risk and other cognitive issues, and presents an overview of the concepts and techniques used to construct investment portfolios. Given the importance of fiduciary duties of the advisor, ethical practices of financial planning will be emphasized.

This course also provides an overview of the major components in financial planning including consumption planning, tax planning, insurance planning, retirement planning, and estate planning. A general discussion on wealth management is also presented. This course aims to prepare students to be investment professionals in the areas of private banking and asset management.

COURSE OBJECTIVES

Upon successful completion of this course, you should be able to:

- understand the fiduciary duties as a financial planner and the professional responsibilities in the financial planning process
- apply personal profiling techniques to comprehend the unique situation and preferences of the client
- construct optimal portfolio via classical mean-variance analysis and make asset allocation decisions which match goals, risk tolerance and other client characteristics
- communicate effectively with the client and understand their attitudes and values in such a way as to incorporate them into their financial plan
- construct personal financial statements and use ratios and other techniques to analyze these statements
- identify strengths and weaknesses in a client's initial situation and determine opportunities for problem solving
- use time value and risk-adjusted valuation techniques in financial planning applications
- implement goal funding, including determination of realistic targets and capital needs analysis, for retirement and other goals
- know the importance of and how to incorporate fundamental tax planning, risk management and estate planning techniques into the overall financial plan
- implement the financial planning process while following the professional *Practice Standards* of CFP Board
- demonstrate the ability to analyze, synthesize, and evaluate personal financial situations
- demonstrate the ability to develop and justify the economic assumptions used in a financial plan
- prioritize goals and determine the feasibility of achieving these goals
- demonstrate the ability to clearly discuss and justify recommendations

INTELLECTUAL DEVELOPMENT

To meet the objectives of this course, you are required to develop and present a financial plan which meets the professional standard. We will use a simple case as the base and enrich its content through role play and use of actual financial data. You will be able to apply all six steps of the financial planning process in a "real-life" situation, and learn to develop appropriate recommendations, particularly on asset allocation in the investment portfolio, for the clients to meet their financial goals.

In addition to developing technical expertise in personal financial planning, this course develops and fosters your:

- communication skills, both written and oral
- critical thinking
- decision-making
- intellectual curiosity and lifelong learning

Remark:

This course will fulfill the education requirement for Module 1: Foundation of Financial Planning of CFP^{CM} certification of Institute of Financial Planners of Hong Kong (IFPHK).

TEACHING MATERIALS

Required Textbook

Cheng, *Fundamentals of Financial Planning*, McGraw-Hill Education (Asia) and Institute of Financial Planners of Hong Kong, 2006.

This textbook is the principal text on the financial planning process and issues in the local context. A few additional topics will be contained in *assigned readings*, which are available on the course website.

Supplementary Textbooks

1. Bodie, Kane and Marcus, *Investments*, McGraw-Hill Irwin International edition, 6th ed.
2. Altfest, *Personal Financial Planning*, McGraw-Hill Irwin, 2007.

Bodie et al's *Investments* text is the basis for our discussion in investment planning with focuses on portfolio construction and asset allocation. Altfest's textbook is a more comprehensive and advanced financial planning textbook. However, its content is US-based so we will only select a few topics for discussion. Some of my lectures and examples will be based on this text.

References

As we are covering a wide range of topics, and some topics have specific practical relevance to residents in Hong Kong, it will be necessary for you to be familiar with the market practice and regulations. I try to provide a variety of market data, professional reports, and guidance issued by the government or authorities which may be helpful for your assignments and case work.

Reference Books

1. Brew, T., Perera, R., Stone, M. and Ica van Eeden, *Bridging The Wealth Management Gap in CRM in Financial Services: A Practical Guide to Making Customer Relationship Management Work*, 575-694, 2002.
2. Michael M. Pompian, *Behavioral Finance and Wealth Management: How To Build Optimal Portfolios That Accounts For Investor Biases*, John Wiley & Sons, Inc.: New Jersey, 2006.

These two books are recommended for students who want to further their study in wealth management. Building on the materials covered in this course, students will be able to gain a more in-depth understanding in two essential aspects of wealth management, namely, building a trusting relationship with clients as well as understanding investor psychology and managing investment portfolios for high net worth clients.

Note: I have put all books listed above on reserve in the library.

Articles

There is a compilation of academic journal articles which will provide more in-depth analyses and examination on the topics covered in this course. They are good references for research ideas. The articles are available on the course website.

ASSESSMENT

- Attendance and Participation 5%
- Assignments (4) 10%
- Financial Planning Case
 - Role play and presentation 10%
 - Presentation of recommendations 10%
 - Written financial plan 20%
- Midterm Exam 15%
- Final Exam (cumulative) 30%

The emphasis in this course is on the application of concepts and analytical techniques to real life situations in personal financial planning, with the expectation to bring a new level of analytical depth to this fast-growing and challenging field.

All assignments and case work may be completed in groups of up to four students. The names of group members must be emailed to the TA before Sept 11. Your group should stay together until the end of the semester. All students in a given group will receive the same grade. It is up to you to decide the group composition and to make sure that all members contribute equally.

I strongly encourage your active learning by participating in class and will factor it into my final evaluation of your performance. The course should be interactive. I will make every effort to bring out the intuition behind the analytics, to emphasize the practical application of the results, and to relate the course material to current financial advisory issues and to problems relevant to the practitioners.

Assignments

There are 4 group assignments. They are intended to give you some hands-on experience with applying financial planning techniques learned in the class in an elaborate situation. Typically the assignments include some numerical exercises for which you will need to use EXCEL spreadsheets. Templates used in class are available on course website.

The assignments will be handed out in class. You will have about one to two weeks to complete each assignment. I will tell you the exact date they are due. All assignments are to be collected before the lecture on due dates. Late returns of assignments will not be accepted under any circumstances, as this will be unfair to all students who return their work on time.

Each group will submit one copy of their work. Group number, names and student ID numbers of all contributing members should be clearly put on the cover page. Only those students whose names appear on the cover page will receive credit for the assignments.

The assignment reports should be in hardcopies. Softcopies will not be graded. Please ensure your reports are typewritten, not handwritten. The report should be a self-contained write-up of the analysis results. When answering the numerical questions, you must submit the spreadsheet AND a short, focused answer using numbers where relevant to support your claims. All spreadsheet and calculation should appear at the end of the report.

Financial Planning Case

We will use an integrated case approach to comprehend the financial planning process and achieve the ultimate goal of preparing a written financial plan for the clients. There will be two presentations made by each group. One is a role play or presentation for one of the tasks in the six step process (excluding step 4) and each group's task will be different. I will randomly pick a group for the task one week in advance. Other groups are expected to actively ask questions in the Q and A session in order to have a clear understanding on the issues at hand, and determine the parameters to be incorporated in developing the recommendations. The other presentation is for step 4, presenting recommendations to the client, which is required for all groups. All presentation will be 20 minutes long followed by a 10 minutes Q and A. More details will be provided after the midterm exam. Some class time will also be reserved for consultation on the case.

The written financial plan must be prepared in a format compatible to professional standards and quality. Sample plans and other planning documents prepared by financial planning professionals will be provided on course website as references.

The internet is a very rich source for free analytical tools and financial information. I will provide a list of websites which should help you work on your assignments and prepare the financial plan.

Exams

There will be two comprehensive exams, a midterm and a cumulative final, which will normally consist of short-essay and numerical questions. The midterm will cover only material taught in class up to that point in the semester, while the final exam will ask questions on all of the course material with more emphasis on topics covered after the midterm exam.

The exams are closed-book. Financial calculators are allowed but programmable calculators or calculators with text display functions are NOT allowed. I will offer guidance on the content and format of the exam about one week before the exam.

There will be no make-up exams offered. Should a student miss the exam due to extenuating circumstances beyond his or her control, the absence must be substantiated by the appropriate documentation within one week of the missed exam. In the case of absence from the midterm exam, the final exam will be re-weighted accordingly, i.e., it will count 50% towards your final grade. A student who misses the midterm exam without a valid excuse will receive "zero" mark for the mid-term exam.

The course is heavily loaded and will require a large time commitment from students.

CLASS CONDUCT

To foster the best learning environment and help develop your professional skills, you should abide by the following codes of conduct:

- You are expected to come to and leave the class **on time** as late arrival and early departure are rude and will be very disruptive to the class.
- You must turn off your pagers and cell phones before entering the classroom.
- Please do not talk with other students during lectures so that everyone can concentrate on the lecture.
- **NO** eating or drinking is allowed in the classroom.

ACADEMIC INTEGRITY

Academic integrity and honesty are critical values in upholding HKUST's reputation as a community of scholars and its claim to the "intellectual property" created by staff and students. As a student of HKUST, you are committed to the Academic Honor Code. Cheating, dishonesty and plagiarism will not be tolerated. You will face strict disciplinary action if you risk yourself in such attempts.

COMMUNICATION

You are welcome to send me emails or visit me during my office hours if you have questions regarding the lectures or course materials. However, to get the most effective results, the questions should be something which remains unclear after you have done all relevant readings, actively discussed with your classmates, and well thought through.

TENTATIVE COURSE OUTLINE

Week 1

Part I Principles of PFP and the Financial Services Industry

Principles of Personal Financial Planning
The Personal Financial Planning Profession
Professional Certification
Ethics and Professional Practice
Regulations of Financial Services Industry

Week 2-3

Part II Investment Advisory Techniques

Personal Profiling
Life Cycle Analysis
Risk Profiling
Behavioral Finance
Investment Planning and Portfolio Construction – Wealth Accumulation

Week 4-8

Part III Financial Planning Components

Consumption Planning – Wealth Creation

Asset Acquisition: Home Ownership Analysis – Wealth Creation

Tax Planning – Wealth Creation

Retirement Planning (Capital Needs Analysis) – Wealth Accumulation

Risk Management and Insurance Planning – Wealth Protection

Estate Planning – Wealth Distribution

Week 9-14

Part IV Financial Planning Process and Application

Step 1: Establishing Client-Planner Relationships

Step 2: Gathering Client Data and Determining Goals and Expectations

Step 3: Determining the Client's Financial Status by Analyzing and Evaluating Client Information

Step 4: Developing and Presenting the Financial Plan

Step 5: Implementing the Financial Plan

Step 6: Monitoring the Financial Plan