

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

**FINA 399L Personal Financial Planning  
Fall 2008**

**Course Syllabus**

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**Instructor:** Professor Lynn Pi  
Office: Room 2456 (lifts 25-26)  
Phone: 2358 7687  
E-mail: [lynnpi@ust.hk](mailto:lynnpi@ust.hk)  
Office hours: Wed 15:30 – 16:30  
and by appointment

**TA:** Grace Guo  
Office: Room 2391 (lifts 17-18)  
Phone: 2358 7675

**Course website on LMES:** <http://lmes2.ust.hk>

**Lectures:** Mondays and Fridays 13:30-14:50, Room [1504](#)

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**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.

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. 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:

- apply personal profiling techniques to comprehend the unique situation and preferences of the client
- apply risk profiling techniques to determine the risk tolerance of the client and construct the investment policy statement of the client
- 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
- construct optimal portfolio via classical mean-variance analysis and make asset allocation decisions which match goals, risk tolerance and other client characteristics
- 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 the 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 fulfills the education requirement for Module 1: Foundation of Financial Planning of CFP<sup>CM</sup> certification of Institute of Financial Planners of Hong Kong (IFPHK).

**TEACHING MATERIALS**

**Required Textbook**

Cheng, Leung and Wong, *Financial Planning and Wealth Management: An International Perspective*, McGraw-Hill Education (Asia), 2008.

This textbook is the principal text on the financial planning process.

**Supplementary Textbooks**

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

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. Bodie et al’s *Investments* text is the basis for our discussion in investment planning with focuses on portfolio construction and asset allocation.

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

**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.

**ASSESSMENT**

|                                  |      |
|----------------------------------|------|
| • Attendance and Participation   | 5%   |
| • Group Assignments (3)          | 15%  |
| • Financial Planning Case        | 35%  |
| Role play plus Q and A           | 10%  |
| Presentation of recommendations  | 10%  |
| Written financial plan           | 15%  |
| • Midterm Exam                   | 20%  |
| • <u>Final Exam (cumulative)</u> | 25%  |
|                                  | 100% |

## **Participation**

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.

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, and to emphasize the practical application of the results.

## **Student Group**

All assignments and the financial planning case should be completed in groups of up to four students. To ensure the groups are effective with sufficient heterogeneity, I will assign groups before September 17 and inform you accordingly. Your group should stay together until the end of the semester.

For group work, each member will receive an individual grade based on the basic grade received by the group and an adjustment from the peer evaluation. That is, all members of the same group will receive the same basic grade to begin with. Then the basic grade will be adjusted according to a peer evaluation. The peer evaluation will be confidential and done at the time of the final exam.

In the peer evaluation, each member of the group will be asked to rank the other members based on his/her evaluation of each member's relative contribution to the group (excluding himself/herself). For a 4-member group, the rank is on a scale of 1 to 3 with 3 being the best possible, and 1 being the lowest possible. The average rank of each group member will then be computed. Suppose this average rank for an individual is  $x$  (a number between 1 and 3), that individual's final grade in the group assignments and case project is:

$$\text{Grade} = \text{Basic grade} \times [90\% + 10\% \times (x - 1)]$$

Note: You are not allowed to give the same rank to any two people in your group. If you do or if you do not rank someone in your group, those individuals will be assigned a median rank from you (for example, 2 for a 4-member group). As a penalty, your average rank will be lowered to 1.

## **Assignments**

There are 3 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. The assignments may 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 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.

### **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. We will use a simple case as the base and enrich its content through role play and use of actual financial data. The base case will be handed out in the first day of class.

There will be two presentations made by each group related to the case. 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 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 45% 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 visit me during my office hours or send me emails 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**

### **Weeks 1-2**

#### **Overview**

#### **Part I Advisory Techniques**

Behavioral Finance

Personal Profiling

Life Cycle Analysis

Risk Profiling

### **Weeks 3-8**

#### **Part II Financial Planning Components**

Consumption Planning – Wealth Creation

Asset Acquisition: Home Ownership Analysis – Wealth Creation

Tax Planning – Wealth Creation

Investment Planning and Portfolio Construction – Wealth Accumulation  
Risk Management and Insurance Planning – Wealth Protection  
Retirement Planning (Capital Needs Analysis) – Wealth Accumulation  
Estate Planning – Wealth Distribution

**Weeks 9-14**

**Part III 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