

COURSE OUTLINE

**University of Washington Business School
Finance 490/579
Personal Financial Planning
Spring 2009**

Dr. W. Thomas Porter

Purpose and Structure of the Course:

Anyone who earns money, spends money, pays income taxes, and invests money is in the Money Game. To succeed in the Money Game, it is wise to learn some fundamentals about how to accumulate sufficient financial resources to accomplish life goals.

This course is for advanced undergraduate students and graduate students who are interested in successfully managing their financial affairs. There are no prerequisites required to attend the course. Familiarity with basic accounting and financial principles would be helpful, however.

The major topics covered in the course are:

- Getting your assets in shape and other observations on personal financial planning
- The four major categories of personal financial transactions and how to manage them
- Building your financial foundation
- Your income and expenditures including taxes
- Executing proven income tax savings strategies
- Don't go broke -- managing your debt wisely
- What are you worth -- preparing a net worth statement
- The major factors for increasing your net worth
- Your dreams and goals and the financial resources needed to achieve them
- Big ticket purchases -- automobiles and homes
- Savings and investments -- making your dreams come true
- Establishing a savings program -- targeting 10% of your income for investments
- Investment objectives and alternatives
- Risk and return -- major investment risks and potential returns
- The role of asset allocation in achieving desired investment returns and managing risk
- Managing your investments
- Protecting your financial resources and the role of insurance
- Basic estate planning
- Financial issues at various stages of your life
- Financial advice and advisors
- Preparing a financial plan that is right for you

The primary goal of this course to provide students with the knowledge and skills to prepare an annual financial plan and to make successful choices in implementing the plan. By doing so, you have a much greater chance of achieving financial control, financial independence and financial security.

Course Learning Objectives:

As a result of this course, you should be able to:

- Understand the major areas of personal financial planning and their relationships
- Have a working knowledge of analytical tools to develop and implement sound financial strategies
- Critically evaluate recommendations of financial advisors
- Prepare your own personal financial plan
- Gain control of your life financially
- Determine what it takes for you to achieve financial objectives including financial independence

Conduct of the Course:

Most sessions will combine lectures, discussions of the assigned exercises and readings, and class discussion. My style is informal and the more interaction among members of the class, the better. The exercises and readings and website review is vital for classroom discussion and for you to prepare a complete and sound financial plan. You have everything to gain from thoughtful analysis and preparation.

Since teamwork and small group discussions are characteristics of most business activities, I am asking you to form a group of five students to discuss the 8 of the exercises shown in this syllabus. These discussions should take place before the class in which they will be discussed. The responsibilities of each member of the group are:

- On-time attendance
- Homework done in advance of the group meeting
- Active involvement in discussion
- Constructive critiques of the work of the other group members

Required Readings:

There are two required readings for this course --

 Suze Orman, *The Money Book for the Young, Fabulous & Broke*

 W. Thomas Porter, *Getting Your Assets in Shape and Other Observations for Starting the Money Game* (adapted from Porter's book, *The Bank of America Guide to Financial Solutions*)

Websites:

There is much useful information on the internet particularly related to personal financial planning analytical tools, income tax rates and planning techniques, investment tools and products, and calculators for buying automobiles, housing, insurance and other areas of financial planning. The list of websites will be in Porter's book and will be posted on the electronic blackboard. Hopefully, you will use the internet to find other websites that you find relevant for your completion of the course requirements and to use in your financial planning activities.

Course Website:

The course website will contain this syllabus, along with useful commercial websites and excel models to assist you in preparing your personal financial plan. Lecture notes also will be posted on the course website.

Grading and Examination:

Grades will be based on the two examinations during the term and Your Financial Plan to be completed and turned in during examination week

The weighting of the three components are: Examinations – 35% each; Your Financial Plan -- 25%; Small group participation – 5%.

The criteria for grading the mid-term exams are:

- Identification of key issues/opportunities/methodology
- Application of course material -- readings /websites/excel forms/class discussion
- Quantitative analysis and underlying assumptions related to the analysis
- Conclusions
- Clean presentation -- grammar, spelling, etc.
- Clear and concise writing

The criteria for grading the small group presentations are:

- Quality of the analysis of the exercise and the solution
- What you learned from the exercise
- How you will apply what you learned to your own financial plan

Instructor Background:

My background and experience in the area of personal financial planning and investment management is substantial. As the National Director of Executive Financial Counseling at Touche Ross (then one of the Big Eight accounting and consulting firms), I started the firm's practice in financial planning in 1978 and managed it for six years. In 1984, I was hired by Rainier Bank to start its Private Banking function which included lending, investment management and personal financial planning. In 1992, I joined Seafirst/Bank of America and was responsible for investment banking, investment management, retail investments, and financial planning. I was also a member of Bank of America's Northwest Executive Committee. I retired from organized life in 1999.

I have written four books on the subject of financial planning: Wealth How to Achieve!, The Touche Ross Guide to Personal Financial Management, The Touche Ross Personal Financial Management & Investment Workbook, and the Seafirst/Bank of America Guide to Financial Solutions. In addition, I have conducted financial planning seminars for over 15,000 people.

At the end of the syllabus is a more extensive biographical sketch. It is meant to provide information about organizational assignments I have had that may be helpful in assisting you in your career development process. I welcome individual student visits to discuss your career thoughts.

Course Outline

Session 1 -- March 30 Overview of Course and the Personal Financial Planning Process

Course syllabus and learning objectives
Group discussion on areas of interest related to financial planning
Getting your assets in shape and other observations on personal financial planning
The Personal Financial Pyramid -- the key components involved in creating and implementing a financial plan right for you
Introduction of case study and use of excel models
Makeup of small groups to discuss the exercises

Assignment

Read: Porter, Chapters 1 and 2
Read Fortune (October 30, 2006) article, "What It Takes to be Great," to be distributed in first day of class --

Go to website on starting salaries for various industries/professions in the region -
<http://hotjobs.yahoo.com/salary>
Determine the range of salaries for the job category -- e.g., accounting, banking, retail sales -- in which you are most interested
Go to website on information on US consumer expenditures --
<ftp://ftp.bls.gov/pub/special.requests/ce/standard/2005/income.txt> --
Compute the percent of the five largest expenditures for the income category most relevant for you

Exercise #1

Session 2 -- April 1 Major Categories of Financial Transactions and Their Impact on Building Your Net Worth

Group discussion of assignment and Exercise #1
Contents of Your Personal Financial Plan
Income and expenditures patterns and analysis
Starting salaries for recent college graduates
Use of forms 1-3

Assignment

Read Porter, Chapter 3
Go to a website to determine Federal income tax rates for the period 2000-2008.

What has been the trend?

Is all taxable income taxed at the same rate? If not, why not

How is the marginal tax rate determined?

How is the average tax rate determined?

What are some ways an individual can use to reduce Federal income taxes?

Go to www.Irs.gov and peruse the sections on Form 1040 and the various related schedules and instructions

Session 3 -- April 6 Tax Compliance and Tax Planning -- There is a Big Difference

Group discussion of assignment

The Federal income tax system -- how it relates to political, economic, and social factors

The anatomy of a tax return

Gross income

Deductions from gross income

Adjusted gross income

Deductions

Exemptions

Taxable income

Tax due

Methods of paying income taxes

Employment related taxes -- social security and Medicare taxes

Use of Form 4 and instructions on how to use it

Assignment -- Exercise #2

Session 4 -- April 8 Major Tax Savings Strategies

Small group discussion of Exercise #2

Tax-free income

Tax-deferred income

Tax-favored income

Tax-sheltered income

Deductions

Use of Forms 4 and 5 for tax planning purposes and instructions on how to use them

Use of Forms 6 and 7

Assignment

Read Porter, Chapter 4

Exercise #3

Session 5 -- April 13 The Financial Scorecard -- Your Net Worth Statement

Your Summary Financial Profile

Taxes -- Continuation

Use of Forms 8-10

Small group discussion of Exercise #3

The five financial variables

Assignment

Read Orman, Chapters 1 and 3

Read Porter, Chapter 5

To estimate your FICO credit score, go to: www.bankrate.com/brm/fico/calc.asp

-- click on FICO Score Estimator home

Determine how you could improve your score and what action you have to take

Exercise #4

Session 6 -- April 15 Don't Go Broke -- How to Manage Your Debt Successfully

Small group discussion of Exercise #4

Characteristics of good debt

Characteristics of bad debt

Assignment

Read Orman, Chapter 8

Read Porter, Chapters 6 and 7

Complete Form 11

Visit the following website -- <http://finance.yahoo.com>

Click on loans, then auto -- tour the areas such as auto education, lease or buy calculator for automobiles, auto loan tools, loan or lease, new vs. used

Exercise #5

Session 7 -- April 20 Your Dreams and Goals and What Financial Resources are Required

Assessing your dreams and goals

Determining what resources are required

Group discussion of dreams and goals -- Form 11 -- and The Financial Roadmap -- Form 12

Big ticket purchases -- automobiles

Functions - basic transportation or something else

New or used

Lease or buy

Other costs

Car sharing and public transportation

Insurance -- coverage and costs

Assignment

Read Orman, Chapter 9

Read Porter, Chapter 8

Visit the same Yahoo website listed above

Click on loans, then mortgage & home equity - tour areas related to

Rent or buy calculations

How much can I afford

Mortgage payment calculations

Mortgage education

Exercise #6

Session 8 -- April 22 Big Ticket Purchases – Homes

Housing -- An investment or a place to live

Rent or buy – Form 13

How much can you afford in buying a home

What kind of mortgage makes sense for you

Small group discussion of Exercise 6 – Forms 14-15

Other costs of home ownership

Insurance -- coverage and costs

Guest speaker: Mortgage Banker

Session 9 -- April 27 – First Examination

Assignment

Read Orman, Chapters 5, 7

Read Porter Chapters 10 and 11

Exercise #7

Session 10 -- April 29 Establishing a Savings and Investment Program

Expense Saving Ideas to Set Aside Additional Funds for Savings

Small group discussion on Exercise #7

Setting a savings target and picking a short-term investment right for you

Guest speaker: Personal Banker and Broker

Assignment

Read Porter, Chapter 12

Exercise #8

Session 11 -- May 4 Investment Objectives and Alternatives
Employer Related Investment Plans

Small group discussion on Exercise #8
Determining an asset allocation right for you
Selecting investments to implement your asset allocation plan
Use of forms 16-18

Assignment

Read Porter, Chapter 13

Go to the following websites: <http://finance.yahoo.com>; www.morningstar.com;
www.vanguard.com; www.troweprice.com;
www.moneycentral.msn.com/investor/home.asp

Determine investment products available, investment (portfolio) management and financial planning assistance available, and the costs of the products and assistance

Session 12 -- May 6 Managing Your Investments

Group discussion on investment products and investment management services available
Determine the best investment products for you
Managing your investment portfolio -- what is involved

Guest speaker: Investment Manager

Assignment

Read Porter, Chapter 14

Exercise #9

Session 13 -- May 11 Protecting Your Financial Resources
Managing Your Risk and the Role of Insurance

Investments -- continued
Group discussion on Exercise #9
Property and casualty insurance
Health insurance
Disability insurance
Life insurance

Assignment

Read Porter, Chapters 16 and 17

**Session 14 -- May 13 Financial Issues and Various Stages of Your Life
Financial Advice and Advisors**

Group discussion of life stages and the major financial challenges at each stage
Financial advice available -- how to evaluate it, what it costs

Guest speaker: Personal Financial Planner

Assignment

Read Porter, Chapter 9

Exercise #10

Session 15 -- May 18 Retirement Planning

Small group discussion of Exercise #10
The major elements and variables of sound retirement planning
The value of employer related plans

Assignment

Read Porter, Chapter 15

Session 16-- May 20 Estate Planning

What is an estate and how is the value determined
What are the major components of a sound estate plan
Property concepts
How is property transferred
How is an estate taxed
What are the major strategies to minimize estate taxes
The importance of family meetings to discuss estate planning

Session 17 – May 25 – Second Examination

Assignment

Read Porter Chapter 18

Start organizing information to prepare the final version of Your Financial Plan

Exercise #11

Session 18 -- May 27 Discussion of Your Final Personal Financial Plan

Guest speaker: Estate Planner

Small group discussion of Exercise #11

The Major Elements of the Financial Plan

Assumptions for each section where appropriate

Part I -- Your Present Financial Situation including a Form 1040

Part II -- Your Dreams and Goals

Your 3-Year Financial Roadmap

Part III -- Investment Strategies

Part IV -- Protecting Your Financial Resources

Part V -- Your Projected Net Worth at the end of Year 3

Taking Action, including any advisors you may plan to use to help you implement your plan

Assignment

Prepare Your Financial Plan

Session 19 -- June 1 Career Development

Guest speaker: Forging a Successful Career

Integrating career goals and other important goals in your life

Final discussion of Your Financial Plan

Session 20 -- June 3 Other investment topics

Record keeping

Real Estate Investing

Starting a Small Business

Course Evaluation

Assignment

Complete Your Financial Plan and turn it in by **12 noon on June 9**

EXERCISES

Exercise #1

Using the case study, prepare Forms 1-3

Exercise #2

Using the case study, prepare a **1040 US Individual Income Tax Return for 2008** (forms are attached). Use the forms and read the relevant sections of the instructions to Form 1040 on www.irs.gov to complete this exercise. Prepare supporting material to back up any entries on the forms.

After you have completed Form 1040:

- Determine the marginal Federal income tax rate for the taxpayer
- Determine the average Federal income tax rate
- Determine what tax savings ideas have been implemented for 2008
- Determine what additional tax savings ideas might be used in 2009

Complete Forms 4-7 for the case study

Exercise #3

Using the case study, prepare Forms 8-10

How often should one prepare a net worth statement?

What are the primary uses of a Net Worth Statement?

What are the major factors that contribute to the potential for increasing one's net worth?

Exercise #4

1. Discuss the advantages and disadvantages of credit cards
2. Why do some consumers have problems with credit cards
3. Compare major credit cards in the market and determine the ones best for you (provide the sources of your information)

Exercise #5

Complete Form 11 for your own situation

Prepare a Financial Roadmap – Form 12 -- for the three years beginning after you obtain your first full-time job. State your assumptions about the following line items and prepare supporting details particularly for your basic and discretionary expenditures:

- Your starting employment income (salary and bonus)
- Your employment income for the base year and the next two years
- Basic expenses for the three years
- Discretionary expenses for the three years
- Taxes -- income, employment

Expenditures to finance long-term objectives - e.g. - buying a home, automobile, retirement funding

Exercise #6

Go to the Seattle Times Sunday paper – Real Estate Section – or other resources and find a condominium or house that may be appropriate for you to consider buying. Determine the price and then complete Form 14 to compute the down payment that you can afford. Then complete Form 15 and use mortgage calculators found on www.Finance.Yahoo.com.

On line 8 of Form 15, you have computed your maximum monthly housing payment and now you can determine how much you might be able to borrow to finance the purchase of your home. Go to Table 8-1 in the Porter Text and determine how much you can borrow at various interest rate levels.

Exercise #7

Go to www.investorguide.com. Click on “University” on the left side. Click on “Short-term Investment Choices” under Investing.

For each of the short-term investments discussed in the article, determine the current rate of return you can get by reading financial newspapers, by visiting your local banking institution, or by visiting websites.

Exercise #8

Go to Google and search “Asset Allocation”

Find two or three asset allocation models and compare their allocation recommendations to the one recommended in Table 11-3 in Chapter 11.

Determine the differences between the various models and what contributes to the differences

Prepare an asset allocation that you think is appropriate for you

Complete Forms 16 and 18

Exercise #9

After you start your career, what risks will you have that might have a financial consequence to you.

Develop a plan to minimize the risk, including your personal behavior -- e.g., exercise, defensive driving – and all the types of insurance you may want to purchase.

Determine the annual cost of the insurance you think you want to purchase and the impact on your annual expenses

Exercise #10

Review the following retirement planning sites:

<http://finance.yahoo.com> -- click on retirement;

www.vanguard.com -- go to the site, click on IRA's 401k rollovers, retirement investing; click on retirement planning tools and calculators;

www.troweprice.com -- click on planning for your retirement

Enter the data requested by the model and get results that provide guidance for your retirement funding.

Examine Quicken and Microsoft Money and describe the features of each software package, how each could assist you and what the price is.

Exercise #11

Using the Net Worth Statement in the materials packet, what is the probable nature of the property owned by the case study parents (separate, community, joint, etc.). What legal documents would you advise the couple to have to transfer their property? What other legal documents should they have in connection with their estate plan? Using the Net Worth Statement, the format on Figure 15-1 and the estate tax rates in Table 15-1 in Chapter 15, determine the taxable estate of the first to die and any Federal estate taxes that might have to be paid. State your assumptions about the nature of the property owned by the decedent

Attached is a packet of some readings and materials for the completion of the exercises which include:

Fortune Magazine article “What it Takes to be Great”

Case study for Exercises 1, 2, 3,

Form 1040 – U.S. Individual Income Tax Return for 2008 – for Exercise 2

Net Worth Statement – for Exercise 11

Biographical Sketch

Dr. Porter is currently Chairman of Porter Investments LLC.

In addition to his banking experience, he was a partner of Touche Ross & Co., an international accounting and consulting firm. He had several national responsibilities including the National Director of Planning, National Director of Executive Financial Planning, and National Director for Professional Development.

Dr. Porter received his BS from Rutgers University, his MBA from the University of Washington and his Ph.D. from Columbia University. He was a professor of management control systems at the University of Washington. He also was a visiting professor at the North European Management Institute in Oslo, Norway and at the National University of Ireland in Galway.

In addition to his authoring several personal financial planning books, he has authored several books on planning and control subjects. His most recent books are *The Glory of Washington: The People and Events that Shaped the Husky Athletic Tradition*, *Husky Stadium: Great Games and Golden Moments*, and *A Football Band of Brothers: Forging the University of Washington's First National Championship*.

He has served as a director on the boards of AEI Music, Bite Golf Shoes, Inc., Charter Private Bank, Coldstream Capital Management, Flexcar, and Shurgard Storage Centers, Inc.

He has been active in community activities and has served on the Board of Trustees of the Lakeside School (chair), the Virginia Mason Medical Center (chair, the Board of Governors and the Medical Foundation), the Dale Turner Foundation (chair), the Ryther Child Center (chair), the Salvation Army (chair), EconomicsAmerica, the Olympic Park Institute, the University of Washington Tyee Board, the University of Washington School of Economics Advisory Board, and the University Congregational Church.

He was chair of the University of Washington's \$54 million Capital Campaign for the Student Athlete. For his community activities, he has received the Salvation Army's highest layperson award -- the Others Award, the Washington Society of CPA's Humanitarian Award, the Volunteer of the Year Award from the National Association of College Athletic Directors, the Deloitte & Touche Distinguished Alumnus of the Year Award, and the Frank Orrico Award for his many contributions to Washington's Athletic Department. He is listed in *Who's Who in America*.

