

Course Outline

Winter 2018 (First Class on Fri/Jan/5)

Friday

Section U: **8:30am – 11:30am**

Room: **SSB N107**

Instructor

Moshe A. Milevsky, Ph.D.
N204F Seymour Schulich Building
milevsky@yorku.ca
Office hours: By appointment

Assistant

Stacey-Ann Filici
SSB N204A
416.736.2100 Ext: 55690
fine@schulich.yorku.ca

Brief Description

Students learn personal financial management both for professional work in the financial services industry and for their own families. Topics include goal-setting, budgeting, taxation, debt management, risk management, insurance, investment principles and practice and retirement planning. Much of the course is based upon realistic problems and cases.

Course Learning Outcomes

This course is a general introduction to personal financial planning in Canada. The purpose of the course is to learn how to think about long-term financial planning in the presence of uncertainty as it pertains to the individual. My goal is to help you make better financial decisions. The actual lectures are built around a series of topics including. Mathematics and Statistics of Personal Finance, Personal Balance Sheet, Human Financial Life Cycle, Personal Income Tax Strategies, Insurance and Risk Management, Controlling Credit and Debt, Renting, Buying and Financing a Home, Risk and Return in the Capital Markets, Optimal Investment Strategies, Retirement and Pensions.

Organization of the Course

I urge and encourage you to use this course as a unique opportunity to develop an ongoing awareness of the personal financial environment around you. Read the financial media – such as the Globe and Mail's Report on Business or the National Posts' Financial Post -- on a daily basis and pay specific attention to developments in the capital markets, changes in regulation, the debate around income taxes, pension reform and the general Canadian economy.

Deliverables at a Glance

Assignment/Task	Quantity	% Weight	Total %	Author
Class Participation		0%		
Technical Assignment 1		10%		
Technical Assignment 2		20%		
Group Project (Presentation + Write-Up)		30%		
Final Exam		40%		
<i>Total</i>		100%		

Course Material

Required reading for this course includes the following book. It is available for purchase from the York University Bookstore (<http://bookstore.blog.yorku.ca>):

Strategic Financial Planning Over the Lifecycle: A Conceptual Approach to Personal Risk Management

Narat Charupat, Huaxiong Huang and Moshe A. Milevsky,
Cambridge University Press, 2012
Paperback, (ISBN-13:9780521148030).

The lecture notes will be available **after** the class and will be posted on the course database page.

Student Preparation for Class and Class Participation: Expectations

The final grade in course is determined by two homework assignments, group presentation and write-up.

Evaluation of Written Assignments/Projects and Exams

Technical Assignment #1 is a collection of technical problems in personal finance that revolve around the use of the time value of money, working with statistics and probability concepts that will be required for the course. The due date is **Fri/Jan/19** and will not be extended. (Every day the assignment is late will reduce grade by 25/100 marks.)

Technical Assignment #2 is a collection of problems that have to do with integrating taxes and consumption planning over a long-time horizon. This will require you to complete a tax return and/or solve a variety of technical calculations around after-tax spending and consumption rates. This is due on **Fri/Feb/16** and will not be extended. (Every day the assignment is late will reduce grade by 25/100 marks.)

Group Project Write-up and Presentation. This work will be done in groups of 3-4. You will be assigned an article, book, paper or “topic” that you will have to read, analyse, present in class (on **Mar/16** or **Mar/23**)

and then provide a summary report before the final exam. I need copies of your slides on the day of your presentation and would (strongly) recommend a meeting to discuss your presentation, a few days prior.

The Final Examination will consist of responding to 5-8 questions. The exam will take place during the regularly scheduled examination period following the end of the term. The University's Registrar's office sets specific examination dates after the term begins and enrolment patterns are identified. Students should not make plans to be away from Toronto during *any* portion of the announced examination period until the dates for their specific examinations have been announced.

Note: The group project write-up is due at (or before) the final exam. The exact date will be announced in November, and is not under my control.

Quick Reference: Summary of Classes, Activities and Deliverables

Class No. and Date	TOPIC
<p>Jan/5 (L#1)</p> <p>Very Important lecture</p>	<p>Introduce the Personal Financial Balance Sheet. What is the true value of your assets and liabilities? What is your net-worth? How much human capital do you own? How is it invested? What is your personal capital structure and dividend policy? What is the relationship between corporate finance and personal finance? Mathematics and Statistics of Strategic Financial Planning: What is the required technical background for this course? How much mathematics do you need to know? Review of Time Value of Money (TVM) and basic statistics (mean, variance, covariance) and probability concepts. What will you learn over the next three months? What exactly are the course reading requirements?</p> <p>Chapter #2, #3 (Read pages: 1-42)</p>
<p>Jan/12 (L#2)</p>	<p>The personal financial planning process from Cradle to Grave. What is a financial plan? What does it include? What is the role of a personal financial advisor? How do you become a financial advisor? Who regulates them? What do you need-to-know to become a financial advisor or planner of consultant? How many financial advisors are there in Canada? What designations do they have? How hard are they to obtain? Where do they work? What exactly do they do all day? How do they get compensated exactly? Who pays them exactly? Do they add value to consumers? What does the scholarly and arms-length research say about their role in helping consumers? What are some of the current issues around financial planning in Canada? What are the challenges faced by the industry?</p>
<p>Jan/19 (L#3)</p> <p>Assignment #1 is due in class.</p>	<p>Optimizing over the Human Financial Life Cycle: Why should you bother saving any money? Why should you worry about retirement when you are barely in your 20s? How much do you need in order to retire comfortably? Are you saving too little or perhaps you are saving too much? Should the Government force you to save for the</p>

Class No. and Date	TOPIC
	<p>future or can you be relied upon to do it voluntarily? What is the exchange rate between saving today and spending tomorrow? Lifecycle smoothing is the foundation for decision-making. How much money should you have saved at various ages as function of your (average) lifetime earnings? How much should you have saved at the age of 20, 40, 50 or 60? What is the right spending rate during retirement? What are the key personal finance “ratios” for your personal balance sheet? Do you have a healthy balance sheet? Learning Outcome: Derive Optimal saving and consumption rates at all stages of the life cycle.</p> <p>Chapter #4 (Read pages: 46-76)</p>
Jan/26 (L#4)	<p>Controlling Credit and Debt. How much do Canadians owe exactly? Who do they owe it to? What are the different forms of consumer debt? Do Canadian have “too much” debt? When does leverage make sense and pay off and how does it relate to debt? Should you diversify your debts? How much money can you afford to borrow? What is good and healthy debt versus bad and unhealthy debt? What is a safe amount of debt and how can you quantify your risk? Review of the Survey of Financial Security (SFS) data.</p> <p>Chapter #5 (Read pages: 79-100)</p>
Feb/2 (L#5)	<p>Mortgages and mortgage calculations. Where do you get the money to buy a house? How do you find the best mortgage? Should you fix or float your mortgage rate? Should you go long-term or short-term? Should the mortgage be open or closed? Amortization schedules and penalties. Current events in the mortgage market. What risks are Canadians incurring when they borrow (so much) money to purchase a house? How do we quantify the risk and how to we explain it? The learning outcome is to ensure all students understand the mortgage market and business in great detail.</p> <p>Finish Chapter #5 & Chapter #11 (Read pages: 224-236)</p>
Feb/9 (L#6)	<p>Personal Income Tax Strategies: Understand all aspects of completing a T1 General form and all the supporting documents. What is the difference between a tax deduction and a tax credit and which is better? How much are you really paying in income taxes? Why do some Canadians pay no tax? What is your average tax rate? What is your marginal tax rate? What is the difference? How do personal taxes in Ontario (and Canada) compare with the rest of the world? How much flexibility do you have? How can you save (more) money on your taxes?</p> <p>Chapter #6 (Read pages: 103-134)</p>

Class No. and Date	TOPIC
Feb/16 (L#7) Assignment #2 is due in class.	<p>Continuation of the tax-theme. What strategies can you implement to maximize your after-tax rate of return? How should taxes influence your financial planning decisions? Continued discussion of tax strategies, including a very carefully and proper understanding of the mechanics of RRSPs, RESPs, TFSAs and taxable accounts. How does your marginal tax bracket impact investment decisions? After-tax investment returns and strategy. Students will learn to THINK on an after-tax basis for all financial transactions.</p> <p>Chapter #6 and taxes, Continued.</p>
Feb/23	Reading week (or whatever they call it these days) No Class.
Mar/2 (L#8)	<p>Insurance and Risk Management. What risks should you insure and what risks should you self-insure? Review the different types of (retail) personal insurance products purchased by Canadian. What is required insurance and what is recommended insurance? Is buying more (optional) insurance a good idea? Is insurance a good investment? How much life insurance does a family need? What is the difference between three major types of life insurance? Can I use insurance products to save income taxes? Insurance as a mechanism for smoothing consumption and expenditures.</p> <p>Chapter #7 (lightly) and Chapter #8 (lightly)</p>
Mar/9 (L#9)	<p>Brief overview of Risk and Return in the Capital Markets: What are the major asset classes? How do you build a diversified investment portfolio? What is a mutual funds and how does it differ from an Exchange Traded Fund (ETF)? Why are there so many fund choices and how do they differ from each other? What are the odds I'll make money if I buy a stock fund vs. a bond fund? Which investments beat inflation in the long run? How can you find good stock and bond funds? When is a good time to invest? Are stocks safe or risky (in the long run)? Discuss the historical behavior of various asset classes over time. How does correlation impact portfolio construction? How does human capital impact your investment portfolio? Should older people invest differently, compared to younger investors? How can you distinguish random luck from financial skills? Focus on getting students comfortable with the language of personal investments (in Canada) as opposed to portfolio theory or valuation theory, which would be covered in a more advanced course.</p> <p>Chapter #9 (entirely) and Chapter #10 (lightly)</p>

--	--

Mar/16 (L#10)	Class Presentations Part I. Every group member must present. More scheduling details and information to follow.
Mar/23 (L#11)	Class Presentation Part II. Every group member must present. More scheduling details and information to follow.

Mar/30	Good Friday (no class)
---------------	-------------------------------

Apr/6 (L#12) LAST CLASS	<p>Retirement Income and Pensions: I'm young and barely have a job or career. Why Should I care about pensions? What is the difference between a Defined Contribution (DC) pension plan and a Defined Benefit (DB) pension plan? Who pays for pensions? How do these formulas work? Which plan is better for me? What happens to my DC or DB pension when I (or my parents) retire? What happens to my pension when (or my parents of grandparents) die? Speaking of pensions, what is the Canadian Pension Plan (CPP) and how exactly does that work? Do I get a fair investment return from CPP? Is it insurance or investment or both? Would I be better off investing the required contributions myself? What is a real (inflation adjusted) pension annuity and when should I (or my grandparents) buy one? What is longevity risk? How is it measured? What is sequencing risk? What are the financial and insurance products that are available to help insurance or protect against these risks?</p> <p>Review and summary of course and preparation for final exam.</p> <p>Chapter #12 (Read pages: 238-264)</p>
--	---