

Personal Finance

1. Introduction

The ultimate goal of this course is to provide you with a general, integral, simple, practical, and effective framework to successfully manage your own savings.

2. Objectives

The ultimate goal of this course is to provide you with a general, integral, simple, practical and effective framework to successfully manage your own savings. Contrary to what some people would have you believe, it does not take a PhD in Quantum Physics to sensibly manage your money. The approach discussed in this course follows from the strategies endorsed by investment legends such as Warren Buffett, John Bogle (founder of Vanguard), and David Swensen (CIO of the Yale University endowment).

3. Learning Outcomes

This course will provide you with the necessary and essential tools to build and maintain your portfolio. You will learn about asset classes, financial products, the costs of investing, portfolio choice and rebalancing, behavioral insights, and useful resources online.

4. Content

The course consists of the nine sessions outlined in the 'Outline' section below.

5. Methodology

The course is based on interactive lectures, not on cases. The material you are expected to read before each session is in the course package and detailed in the next page; complementary material will be posted on Blackboard after each session.

6. Evaluation

The course will be evaluated on the basis of a group project (80% of the credit) and individual class participation (20% of the credit). The group project consists of helping a client to build and understand a portfolio that fits his situation and financial goals. The tangible output of the project is a brief report you have to write and turn in. Details will follow at due time.

7. Outline

1. **Underlying Issues.** Some critical questions. Individual and institutional investors. What we will not discuss and why. What investors do and do not control. Forecasting.
 - ☞ Handout: “Low Rates? Ten Ideas to Consider.”
 - ☞ Handout: “Mean Return – Three Definitions.”
 - ☞ Vanguard (2006). “We Believe #1.”
 - ☞ Vanguard (2006). “We Believe #8.”
2. **Guest Speaker.** A practitioner’s perspective. Implications for your portfolio.
 - ☞ No readings.
3. **Asset Classes.** Core and non-core asset classes. Stocks, bonds, and alternatives. Role in the portfolio and distinctive characteristics.
 - ☞ Swensen, David (2005). *Unconventional Success*. Chapter 1: “Sources of Return.”
4. **The Product Landscape.** Absolute and relative performance. Active and passive management. Hedge funds, absolute return funds, mutual funds, index funds, and exchange-traded funds (ETFs).
 - ☞ Rosenberg, Laurence, Neal Weintraub, and Andrew Hyman (2008). *ETF Strategies and Tactics*. Chapter 1: “What Are ETFs, and What Makes Them Good Investments?”
5. **A Critical Variable: Costs.** The visible and hidden costs of investing. The relevance of costs. Back to active versus passive management.
 - ☞ Vanguard (2006). “We Believe #5.”
6. **Asset Allocation & Rebalancing.** The strategic decision. Relevant variables. Investor questionnaires. Rebalancing: Why, when, and how.
 - ☞ Ferri, Richard (2006). *All About Asset Allocation*. Chapter 12: “Building Your Portfolio.”
 - ☞ Ellis, Charles (2013). *Winning the Loser’s Game*. Chapter 9: ‘Time.’
7. **Security Selection.** The three pillars. Focus on simplicity and broad diversification. Simple reference portfolios.
 - ☞ Hsu, Jason, and John West (2016). “The Confounding Bias for Investment Complexity.” Research Affiliates Fundamentals.
8. **Online Resources.** The good, the bad, and the ugly. Fund and ETF screeners. Asset allocators. Portfolio visualizer and portfolio X-Ray. Robo advice.
 - ☞ Accenture (2016). “The Rise of Robo-Advice.”
9. **A Global Vision.** A look back: Key messages and learning points. A look ahead: Global vision, final thoughts, and the road ahead.
 - ☞ Kritzman, Mark (2009). “Rules of Prudence for Individual Investors.”

8. Professor's Biography



Javier Estrada is a Professor of Finance at IESE Business School in Barcelona, Spain. He is also a partner and financial advisor at Sports Global Consulting Investments, a company that specializes in providing wealth management advice to professional athletes. Javier holds an M.S. in Finance and a Ph.D. in Economics from the University of Illinois at Urbana-Champaign (USA), and a B.A. in Economics from the National

University of La Plata (Buenos Aires, Argentina). His areas of specialization are wealth management, portfolio management, investments, and law & economics.

Javier held positions at both the Economics Department and the Finance Department at Carlos III University (Madrid, Spain). He is also a regular visiting professor at HANKEN (Helsinki, Finland), IPADE (Mexico City, Mexico), Torcuato Di Tella University (Buenos Aires, Argentina), and the University of Montevideo (Montevideo, Uruguay), and has lectured to executives, graduates, and undergraduates in many countries.

Javier is the author of *Finance in a Nutshell* (FT Prentice Hall, 2005), originally written in English and subsequently translated into Spanish, Italian, and Chinese; a second edition of this book was published in 2011, is entitled *The FT Guide to Understanding Finance*, and was translated into Korean. He is also the author of *The Essential Financial Toolkit – Everything You Always Wanted To Know About Finance But Were Afraid To Ask* (Palgrave Macmillan, 2011).

Javier has done extensive research in the areas of portfolio management, investment strategies, and risk with a special focus on downside risk. He has also done research on emerging markets and insider trading. His articles have appeared in the *Journal of Portfolio Management*, the *Journal of Investing*, the *Journal of Asset Management*, and the *Journal of Wealth Management*, among other journals. He was also the founding editor of the *Emerging Markets Review*, the leading journal on emerging markets; was editor of the journal between inception in 2000 and the end of 2006; and remains an associate editor. He is also in the advisory board of several other academic journals.

Javier is a member of the CFA Institute's Speaker Retainer Program; is Director of both the Senior Executive Program (SEP) that takes place between New York and Miami and the open-enrollment program on Managing Your Own Portfolio; and was a tennis instructor.