



5th Term MBA-2019

1 credit

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PERFIN Personal Finance

Introduction

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

Objectives

The ultimate goal of this course (formerly called WININV) is to provide you with a general, integral, simple, practical and effective framework to successfully manage your 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).

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, absolute and relative performance, active and passive management, the costs of investing, portfolio choice and rebalancing, the pillars of security selection, behavioral insights, and useful resources online, among many other critical issues.

Competences

This course will provide you with the skills and tools to understand the process of building and maintaining your portfolio, and successfully manage your savings.

Content

The course consists of the ten sessions outlined in the 'Course Outline & Biography' section below.

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.

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.

Course Outline & Bibliography

1. **Underlying Issues.** 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. **Asset Allocation – 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.
3. **Security Selection – Products.** Absolute and relative performance. Active and passive management. Hedge funds, absolute return funds, mutual funds, index funds, and exchange-traded funds (ETFs). Two critical challenges.
 - ☞ Rosenberg, Laurence, Neal Weintraub, and Andrew Hyman (2008). *ETF Strategies and Tactics*. Chapter 1: What Are ETFs, and What Makes Them Good Investments?
4. **Security Selection – Costs.** The visible and hidden costs of investing. Costs and impact on performance. Trends in global markets. Back to active versus passive management.
 - ☞ Vanguard (2006). “We Believe #5.”
5. **Asset Allocation – Choice and Rebalancing.** The strategic decision. Relevant variables. Informal rules. 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.”
6. **Security Selection – The Three Pillars.** Simplicity, diversification, and low costs. Currency diversification. Useful and useless ETFs.
 - ☞ Hsu, Jason, and John West (2016). “The Confounding Bias for Investment Complexity.” Research Affiliates Fundamentals.
7. **Three Important Issues.** Risk-adjusted returns. Growth, returns, and the fallacy of growth. Three consistent patterns.
 - ☞ Morningstar (2010). “The Morningstar Rating for Funds.”
 - ☞ Morningstar (2004). “The Morningstar Style Box.”
8. **Behavioral Insights.** Cognitive imperfections and impact on investment decisions. Experiments. Lessons for investors.
 - ☞ Morningstar (2013). “10 Behavioral Pitfalls – A Primer.”
9. **Online Resources.** Asset allocation tools. Investor questionnaires. Portfolio visualizer. Portfolio X-ray. Fund and ETF screeners. Benchmark sites. Robo advice.
 - ☞ Accenture (2016). “The Rise of Robo-Advice.”
10. **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.”

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 provides wealth management advice to professional athletes; and he is the sole advisor of the investment strategy of the Alpha Investments mutual fund.

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 and the Finance Departments 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 around the world.

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 on the areas of portfolio management, investment strategies, and risk, as well as on emerging markets and insider trading. His articles have been published in the *Journal of Portfolio Management*, the *J. of Investing*, the *J. of Asset Management*, and the *J. 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 2006; and is in the advisory board of several other academic journals.

Javier is a member of the CFA Institute's Speaker Retainer Program; teaches open-enrollment programs and several courses on personal finance and wealth management in different executive-education programs; and was a tennis instructor.