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Money Management Skills

Course Guidebook

Professor Michael Finke
Texas Tech University



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PUBLISHED BY:

THE GREAT COURSES
Corporate Headquarters
4840 Westfields Boulevard, Suite 500
Chantilly, Virginia 20151-2299
Phone: 1-800-832-2412
Fax: 703-378-3819
www.thegreatcourses.com

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Printed in the United States of America

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Professor Michael Finke is a Professor of Personal Financial Planning and Director of the Retirement Planning and Living Consortium at Texas Tech University, where he leads the doctoral program—considered the premier academic program in financial planning. He completed a doctoral degree in Consumer Science from The Ohio State University in 1998 and in Finance from the University of Missouri in 2011. He is the former editor of the *Journal of Personal Finance* and is currently a contributing editor to *Research* magazine. A longtime advocate for ethical financial advice, Professor Finke is the former president of the American Council on Consumer Interests and serves as an expert on regulatory and legal issues related to financial planning.

Professor Finke has authored a number of award-winning research articles in the fields of retirement income, investment advice, and investor decision making. In total, he has published more than 50 peer-reviewed articles and book chapters on personal finance topics.

Professor Finke also has received numerous awards as an instructor of a wide range of financial planning courses, from basic undergraduate personal finance to doctoral-level research methods. He frequently speaks at industry and academic conferences on advanced financial planning topics. In 2012, he was named to the *InvestmentNews* Power 20 list for his research on the impact of proposed fiduciary legislation on the brokerage industry, and in 2013 and 2014, he was named to the *Investment Advisor* IA 25 list of most influential people in the investment advising industry.

As an expert on personal finance issues, Professor Finke has appeared in the national press, including *The Wall Street Journal*, *The New York Times*,

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USA TODAY, *Kiplinger's Personal Finance*, and *SmartMoney*. He is also a frequent guest on national radio shows, such as NPR's *On Point* with Tom Ashbrook. ■

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Money Management Skills

Scope:

Managing money is more than being frugal. It's about recognizing how we respond emotionally to financial decisions, understanding the basics of financial products and markets, and creating a plan that helps us reach our life goals. This course will guide you through the surprisingly fascinating world of how we manage money throughout our lifetime. You will explore new research that explains how our intuition leads us to make common mistakes, review the most important information about financial products and theories, and learn how to create a financial plan—even if you've had a difficult time staying on track in the past.

In the first lecture and throughout the course, you will learn how our emotions often lead us to make the wrong decisions. The emerging field of behavioral finance shows us why we have a difficult time dealing with risk, choose the wrong investments, buy the wrong kinds of insurance, and fail to meet our goals. The first step to creating a financial plan isn't necessarily knowing what we should do—it's knowing our limitations so we can implement strategies that are going to work.

The fundamental theory that guides money management is life cycle finance. When we make money decisions, they have consequences that ripple throughout our life. You'll learn how we can use this framework to make better and more consistent choices in all of our financial matters. You'll also learn when and why it makes sense to borrow and save and what it really means to take investment risk. The life cycle framework is a powerful concept that will change the way you think about managing money.

Within this framework, you will be given the information you need to know to make better financial choices over a lifetime. Modern portfolio theory and market efficiency make selecting the right investments surprisingly easy. You'll learn how to choose mutual funds in a 401(k) and how to manage different accounts to give you the highest possible return for the amount of risk you want to take.

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Following a life cycle plan involves understanding our choices for borrowing and investing over time. Education is among our most important investments. You will be introduced to the options for saving for educational expenses, and you will determine whether it makes sense to go into debt to pay for college. You will learn how to manage credit and debit cards, how to obtain and maintain credit scores, and how the credit industry works. You will also learn the pros and cons of buying a home, how to qualify for a mortgage, and what types of mortgages make the most sense.

The science of risk management explains how we should choose insurance products that protect against big risks while ignoring some popular products that aren't as valuable. You will be introduced to the basic philosophy of the federal tax system, along with the various deductibles and exemptions we can use to lower our tax bill. You will learn about the most important aspects of planning an estate, including options to transferring assets outside of a will and the legal documents everyone should complete to ensure that we and our loved ones are cared for. Retirement planning involves estimating how much we'll need to save for retirement, when we should retire, and how best to invest to meet our retirement goals.

The final lecture of this course covers the basics of putting together your own financial plan and how to hire an expert to help you through the process. You will learn the steps involved in putting together a budget that balances future goals with spending needs. You will also learn how to create an investment policy statement and how to manage investments over time. The lecture will demystify the investment advising business by reviewing the types of financial advisers, how they are paid, and who does and does not have to make recommendations in your best interest. ■

Understanding Your Financial Brain

Lecture 1

How do we prepare ourselves for an uncertain financial future when so much is at stake? Money management requires knowledge of financial products, investment and risk theory, and tax rules. But it also requires an understanding of how we as fallible humans make mistakes. In this course, you will learn the most important information you need to manage your finances. You will also gain insight from the emerging science of personal financial decision making so that you can avoid following your emotions down the wrong path.

Financial Decisions and the Brain

- Especially when it comes to financial decisions, our brain is in a constant struggle. We know what we should do, but we often don't do it. That's because we don't have just one cognitive system; we have two primary brain parts that influence how we respond to money.
- Most Americans believe that they should save more than they are saving for retirement—but not enough to actually do something about it. When we're planning for the future, we use a small part of our brain right behind our eyes called the prefrontal cortex. This part of the brain likes to think it's in control. In fact, when faced with evidence that it's not in control, it goes to great lengths to justify why we, for example, sold all our stock after a market crash.
- The truth is that the prefrontal cortex we use in conscious decision making isn't really in control at all. It has been likened to a rider sitting on top of an elephant. The rider can generally guide the elephant around just fine, until the elephant decides it really wants to go somewhere else.

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- The elephant part of our brain is called the limbic system. It is a much older part of the brain and takes care of things like real estate



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