

# A Rigorous and Student-Friendly Approach to Personal Financial Planning

*Personal Financial Planning* is the perfect text for courses that go beyond traditional personal finance and instead teach students how to do actual financial planning. This text uses an original framework to make the material comprehensible to students while simultaneously providing a platform for further research and innovation within the discipline.

What makes this book special?

- Altfest's Total Portfolio Management approach compares the conditions of personal finances with the well-known concepts of business planning, addressing the financial concerns of the household in a similar manner applied to those of a business.
- A fully integrated case study threads throughout the text, taking a couple through the steps of personal financial planning as they are covered in each chapter.
- One chapter focuses entirely on non-financial investments, covering factors such as those based on projected income, tangible assets such as property, and human-related assets such as Social Security benefits.
- A chapter on Behavioral Analysis addresses current research on behavioral effects in financial planning.

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# Personal Financial Planning

Lewis J. Altfest, Ph.D.

*Pace University*



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## PERSONAL FINANCIAL PLANNING

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To my wife Karen. Her success as a financial planner after receiving a Ph.D. in an unrelated field made her inputs particularly valuable in constructing this text. Perhaps more importantly, through her ability to balance a career and dedication to our children and the quality of our lives together, she created an environment that made this book possible.

# About the Author

## **Lewis J. Altfest, Ph.D., CFP, CFA, CPA, PFS**

Lewis J. Altfest has balanced a career in financial planning and investing with one as an associate professor of finance. He began as an accountant working for a then “Big 8” accounting firm and became a Certified Public Accountant. After some shorter-lived ventures, he joined the Wall Street firm of Wertheim and Co. in its investment research department. He held similar positions with Lehman Brothers and Lord Abnett & Co.

At Lord Abnett & Co., an investment management firm, he rose to become Director of Investment Research, Chief of Long Range Strategy, and a general partner of the firm. At the same time, he began seriously pursuing a Ph.D. and teaching part-time. It was at Lord Abnett that Lewis Altfest decided to focus on helping individuals instead of institutions. He wanted to become the “Consumer Reports of Financial Planning,” that is, to provide unbiased financial and investment advice and to dedicate himself to instructing students and the public on financial matters.

In 1982 he established a financial planning and investments firm along with another individual and in 1983 incorporated a firm performing the same activities by himself. At about the same time, he joined the faculty of Pace University as Associate Professor of Finance.

His wife, Karen C. Altfest, joined him in business shortly thereafter (his son some 20 years later) and together they have established a multi-person financial and investment advisory firm, L.J. Altfest & Co. Inc., located in New York City.

Dr. Altfest has been active in financial planning industry matters for over 20 years, interacting with other planners nationwide, and has been an original member and a member of the board of directors of the National Association of Personal Financial Advisors and served on the board of directors of the IAFP New York Chapter, the predecessor of the Financial Planning Association, and on the board of the Educational Foundation of NAPFA as well.

Over the past 20 years, Dr. Altfest has been named to Best Planners in the United States lists by *Money* magazine, *Worth Magazine*, *Mutual Funds Magazine*, and *Medical Economics*. Dr. Altfest’s firm has been named among Bloomberg’s “Top Wealth Managers” for the past three years.

At Pace University he has been active in many pursuits, including serving on the university’s employee benefits committee and chairing the finance department’s recruitment and tenure committees. He has published academic research papers in financial planning and investing and has two other books, *Introduction to Business* (Harper and Row) and *Lew Altfest Answers Almost All Your Questions about Money* (McGraw-Hill), which he co-authored with his wife. His most recent research paper is “Personal Financial Planning: Origins, Developments and a Plan for Future Direction,” *American Economist*, published in 2004.

Dr. Altfest participates in many professional and academic associations today, including the FPA, NAPFA, CFA Institute, and AICPA, and is an original member of the Academy of Financial Services. His advice and research have been quoted in such media as the *New York Times*, *The Wall Street Journal*, *Newsweek*, *US News and World Report*, *Fortune*, *BusinessWeek*, *Money Financial Advisor*, *Financial Planning*, *Investment News*, *Bloomberg Wealth Manager*, and *Bottom Line*, and he has written a monthly column for *Medical Economics* for over a decade. He has appeared on CBS, ABC, NBC, CNN, CNBC, and others. He has been named an Alumni of the Year by CUNY Graduate Center, where he received his Ph.D. degree.

You can catch him on Saturdays and Sundays relaxing on the deck of his weekend home, alternately doing work, talking to Karen, and gazing at the birds on the treetops, which one of his clients assured him would add years to his life.

# Preface

## GOALS OF THE BOOK

*Personal Financial Planning* is designed to be used for the study of personal finance and financial planning from a planner's perspective. This text goes beyond the traditional personal finance texts to teach students how to do actual financial planning and integrates the theory and practice of personal finance.

This book incorporates a theory of personal financial planning that demonstrates the similarities and differences between personal and business finance and integrates the entire body of financial material presented. It is intended to utilize the theoretical contributions over the past half-century, particularly modern portfolio theory, to elevate the level of presentation. At the same time, its goal is to remain easy to understand and useful in real life.

Experienced financial planners and other professionals looking for a one-volume reference to the planning field from a practitioner's perspective, or who may be considering pursuing the Certified Financial Planner™ (CFP®) certification should find the book appealing. Those who would like to plan their own financial future in a comprehensive way also should find the text informative. Consequently, instructors of education courses, whether for general or CFP® certification preparation purposes, may consider the text's practical combination of planning facts, analysis, and frequent step-by-step instructions attractive.

## THEMES

This text is unified by a few themes. One is that the household resembles a business and can profitably use its financial techniques. Another is that decisions for the household, for you, include all operations and all assets and obligations. In other words, decisions are ultimately made on an integrated basis. Whether we are engaged in investment activities or mapping retirement plans, we are performing household operations that fall under personal financial planning's mandate.

Our personal financial planning objective is effective household operations that we achieve through logical, businesslike financial procedures. Households whose activities are financially efficient have the foundation for personal goal achievement. This approach is covered in more detail in Chapter 4.

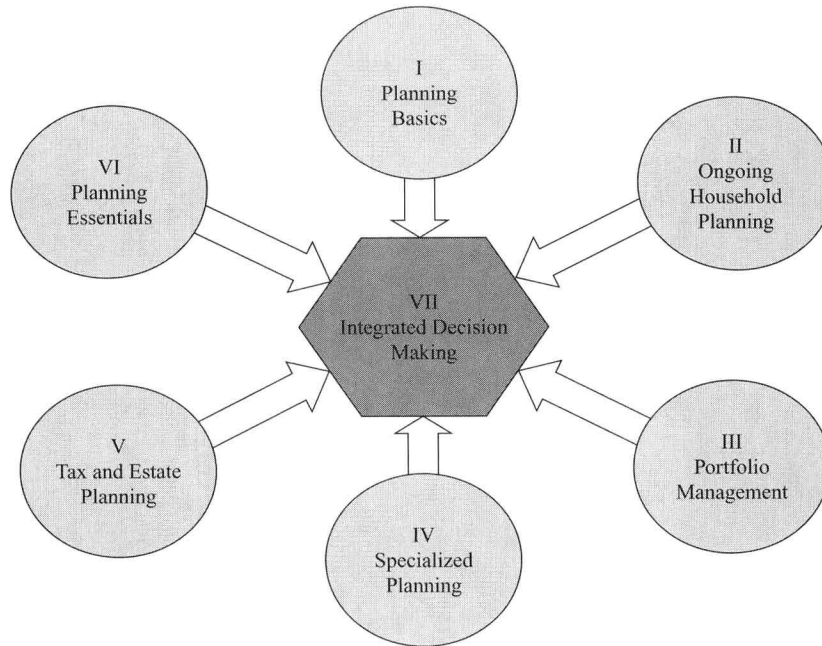
## ORGANIZATION

In keeping with its practical emphasis, *Personal Financial Planning* is largely ordered around the parts of a financial plan. Its parts all funnel into the final section, "Integrated Decision Making." The approach is illustrated in Figure A.

Many of the chapters that require active planning use a full or modified process-oriented approach that takes the student through the methodology point by point. This approach not only provides an easy-to-follow structure; it also better prepares financial planning majors for more advanced material to come.



**FIGURE A**  
Sections of the Book



## Content

Personal financial planning is an unusually broad discipline that requires knowledge of topics ranging from mathematics to human interaction. Not coincidentally, there is an introductory chapter in Part One that presents virtually all the mathematical material needed in simple fashion with solved examples for each step. It is a feature of the book that all new concepts are followed by examples using generic calculator solutions where possible and Excel-based solutions in the text and on the Web site.

The human side of the process, which is often overlooked, is presented in Chapter 3 in the sections that stress communications and goal setting. Human actions are expanded on in a separate chapter, “Behavioral Financial Planning” (Chapter 19), which presents the latest thinking on the topic. Practical examples of its contributions are given in each major area of personal financial planning.

In keeping with the practical nature of the text there is a final chapter, “Completing the Process,” that truly explores the finishing process. To the author’s knowledge, this is the only textbook to cover PFP integration and overall decision making in detail. The chapter could have been called simply “Completing the Financial Plan.” However, it essentially does more, indicating how certain tools and practices demonstrate the comprehensive nature of PFP and improve the completion process. It is this integration that requires overall decision making that differentiates personal financial planning from personal finance and from other professions that offer financial advice.

Personal finance and investments courses alike tend to treat financial investments as the centerpiece of investment material. There are other assets, namely human-related and real assets, that importantly enter into decision making. In Chapter 8, “Nonfinancial Investments,” these investments, often given less emphasis, are described and analyzed in detail.

The text has two review chapters in Part Six, “Planning Essentials.” The background chapter includes economics and other material intended to provide those without a proper background, or students in need of a review, with a quick upgrading in usable knowledge. The investment chapter presents descriptive material on stocks, bonds, and mutual funds.

*Personal Financial Planning* is the only text that covers every topic required in the new Academy of Financial Services (AFS)–CFP Board guidelines for the first course, and each subject in the CFP Board’s newly revised topic list<sup>1</sup> of general principles of financial planning for the exam. It is an appropriate method of presentation for all students, not just financial planning majors. Professors who desire further descriptive coverage, including those who prefer broader CFP® certification preparation information, will find special chapters for that purpose as well. Suggested course outlines for various instructional approaches are detailed in the Instructors Manual found on the book’s Web site.

## Features

There are a number of features throughout the chapters to help bring the text material to life.

- **Chapter Goals**

The goals of each chapter are stated at the beginning of that chapter. They are most often expressed in action-oriented terms to emphasize the usefulness of the material in daily situations.

- **Dan and Laura opening case**

A key feature is the use of a single case study that is developed throughout the text. Each chapter starts with a relevant sentence or two from that chapter’s event. Significantly at chapter’s end, Dan and Laura’s day-to-day problems are stated and answered from a financial planning practitioner’s point of view. This ongoing case study also reviews the chapter’s material and places it in a broader context. The case permits the student to understand how the chapter’s material can be applied to real-life situations and experience the information-gathering process as a professional interviewer would. Reviewers have said that this case study, which is deeper than a typical academic one, is more interesting and closer to a student’s own experiences.

- **Real Life Planning**

Almost every chapter starts with a minicase called “Real Life Planning.” It sets the stage for the educational material to follow. Students have found these “stories,” largely based on the author’s own experiences with clients and told in a nontechnical manner, an interesting, easy-to-relate-to way to begin the chapter.<sup>2</sup>

- **Key terms**

Key words are presented in boldface to highlight terms and concepts that are emphasized.

- **Practical Comments**

Practical Comments are often used to underscore the situations in which real human actions differ from the way the book tells you it should be done. These highlighted boxes’ recommendations, given to meet the issues at hand, carry the tone of a financial planner who has dealt extensively with these circumstances himself.

- **Tables and figures**

Tables and figures have been placed throughout the text. Wherever useful, the tables have presented a summary of factual material in an easy-to-refer-to manner.

- **Examples**

As we mentioned, there are many examples given, particularly in mathematical and more-difficult-to-describe concepts. Special efforts are made to provide an answer for every type of problem, often including an explanation of why a particular step is taken.

<sup>1</sup> First test date: November 2006.

<sup>2</sup> Certain material has been altered in part to protect the identities of the people who are discussed.

- **Excel and calculator examples**

Excel is explained and solutions are given for all appropriate problems in the appendix to the text and on the Web site. In addition, calculator solutions are provided on a generic pictorial basis in the body of the text where possible, thereby allowing any financial calculator to be used to solve those problems. Where problems are more complex, keystrokes of two leading calculators, the HP12C and the TI BAII Plus, are illustrated right in the example.

- **Comprehensive Financial Plan**

An actual comprehensive financial plan is provided on the Web site. It is based on the Dan and Laura case study presented by chapter, but this time in a more compact manner after final decisions have been made. Students should gain an appreciation for how an actual financial plan looks and, together with chapter presentations, how it is developed.

There are many end-of-chapter study tools to be used for self-study, and/or homework:

- **Chapter Summary**

The salient points of the chapter are placed here. Together with the goals section and key terms, it can guide the student into a better understanding of the chapter's points.

- **Key Terms list with page references**

This feature provides in one place a useful compendium of important terms introduced in the text.

- **Web sites**

Selected Web sites indicate where additional information can be obtained.

- **Questions and Problems**

A select list of questions is presented representing a mixture of factual and evaluative matters. The problems stress mathematical computation as a practical exercise of the chapter's numerical material.

- **CFP® Certification Examination Questions**

An unusually broad list of former CFP® certification examination questions is provided. These demonstrate selected areas of emphasis for those contemplating taking the exam. They also present many practical questions that require students to demonstrate knowledge of the chapter's topics.

- **Case Application and questions**

There is a second case study, called Case Application, that is similar in approach to the first one about Dan and Laura. However, instead of having a solution given in the text, this one is to be prepared and submitted by the student and/or discussed in class.

- **Student Financial Plan**

Instructors who wish to schedule a term project for students doing a financial plan for "clients" can do so. In my experience of over 20 years teaching PFP to matriculating undergraduate and graduate students, this assignment is very popular. The knowledge derived from the two case studies in each chapter and the full financial plan on the Web site enable students to prepare their plans well.

There are also a Glossary and Suggested Readings at the end of the book.

## SUPPLEMENTS

### Online Learning Center

[www.mhhe.com/altfest](http://www.mhhe.com/altfest)

The Online Learning Center contains the following assets which are password-protected for instructors only:

- *Instructor's Manual*. Includes solutions for end-of-chapter questions, problems, and case studies.
- *Test bank*. Word files containing 30–40 questions, including true-false, multiple choice, and essays, prepared by Aron Gottesman, Associate Professor of Finance, Pace University.
- *PowerPoint slides*. PowerPoint slides for each chapter to use in classroom lecture settings, created by Aron Gottesman, Associate Professor of Finance, Pace University.

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It is my hope that this book will contribute to the further development of personal financial planning and enhance the stature of the discipline, the instructors who teach the course, and the professionals who practice its fundamentals.

*Lewis J. Altfest*

*(LJA@Altfest.com)*

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\* Located online at [www.mhhe.com/altfest](http://www.mhhe.com/altfest)



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