Columbia Business School

Practice of Wealth Management for High Net Worth Clients

Spring 2019 Bidding Syllabus

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COURSE DESCRIPTION

Maria Brisbane, CFA, Managing Director, Private Banking & Investment Group, Merrill Lynch and **Alex Zachary**, Vice President and Private Client Associate at U.S. Trust, Bank of America Private Wealth Management.

The purpose of the course is to provide students with a fundamental understanding of the business and practice of wealth management. Topics will include an overview of asset management, equity portfolios, stock selection, valuation metrics, mutual funds, ETFs, outside managers, asset allocation, income needs, and illiquid investments. These subjects will be discussed in the context of the changing macroeconomic environment.

Emphasis will be placed on the importance of relationship management. Who are the clients? What are their core values and goals? We will discuss topics such as money and identity, success and status, family dynamics, and philanthropy.

We will also address ways of understanding the purpose of wealth management, and the shifting focus from investment returns to a "goals-based" approach.

REQUIRED COURSE MATERIALS

Evensky, Harold and Stephen M. Horan, *New Wealth Management*. New York: Wiley, 2011

Chhabra, Ashvin B., *Aspirational Investor*. New York: HarperCollins, 2015

CONNECTION TO THE CORE

Prerequisite: Capital Markets

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

Core Course	Connection with Core
Corporate Finance	1. Cost of Capital 2. Valuation 3. Financing Options 4. Time value of money

	5. Opportunity cost (of capital) 6. The Capital Asset Pricing Model (CAPM) 7. Firm Valuation Model
Managerial Economics	1. Barriers to entry 2. Moats 3. Maximization and thinking on the margin 4. Analyzing complex decision-making under uncertainty 5. Decision-based cost analysis 6. Understanding market competition and equilibrium thinking (in the short-run) 7. Strategic interaction among firms
Strategy Formulation	8. Trade-offs, value-added, efficiencies 9. Creation of value vs. value capture 10. Competing firms 11. Co-competition and Complementors 12. Strategic interaction analysis 13. Diversification and scope 14. Ethics & IBS 15. Behavioral and evidence-based strategy 16. Management

Students will be expected to have mastered these concepts and be able to apply them in the course.

CLASSROOM NORMS AND EXPECTATIONS

Students are expected to adhere to CBS Core Culture in this class by being Present, Prepared, and Participating.

Class Participation:

Preparation, Discussion, Organization

Guest Speakers:

This course will involve several buy-side and Company Management guest lectures; class participation will be crucial to the success of the course.

Seminar	Discussion Topic
1	*Session One: Relationship management* The first session is dedicated to defining the wealth manager. An overview of the wealth manager's practice areas will include general discussions of investment management, credit and banking, and estate planning. With a practical framework in place, we will start to construct a more detailed picture of the wealth manager's role, with special emphasis on relationship management. Topics will include different types of client contact; frequency of contacts and time management; communication styles; and establishing boundaries between clients and their managers. Our session will end with a discussion of how wealth managers are paid, explaining asset management fees, commissions, and performance-related fees. (*Required reading: Evensky & Horan 1-32; supplemental reading to be distributed)*
2	*Session Two: What is wealth?* The second session of the course is dedicated to defining the high-net worth client. What does "high net-worth" mean and how does the definition play out in the context of wealth management? Describing unique categories of high-net-worth individual – inheritors, entrepreneurs, executives – will help us create a profile of these clients, their characteristics, and their "goals" for investing, which will be a theme throughout the course. Finally we will start to grapple with the purpose of wealth for high-net-worth individuals, and how attitudes toward success, status, identity, and family dynamics are all part of what a client brings to the wealth management discussion. *(Required reading: Chabbra 57-70; supplemental reading to be distributed)*
3	*Session Three: Behavioral finance* One of the primary responsibilities of a wealth manager is helping clients to stay-the-course through market ups and downs. Behavioral finance has contributed much to our understanding of how investors think about and react to markets, and has much to tell us about effective wealth management. Our session will be informed by readings from Tversky, Kahneman, and Thaler, and will cover topics such as active versus passive management; lotteries, loss aversion, and overconfidence; solving for emotional reactions using "risk buckets"; and the power of compounding. (*Required reading: Chabbra 9-27; Evensky & Horan 55-73; supplemental reading to be distributed)*
4	*Session Four: Asset classes* Before turning our attention to investment portfolios and how they're constructed, it will be helpful to have some definitions in place describing three main classes of asset. In this session we will define fixed income, and the reliable cash flow it offers an investor; equities,

	which grant investors an ownership interest in publicly traded companies; and real assets, such as real estate, natural resources, and private businesses, providing exposure to the real economic cycle. Typical examples of each asset class will be considered in detail, with attention paid to what can be expected from each asset class over time. (*Required reading: Evensky & Horan 103-119, 179-192; supplemental reading to be distributed)*
5	*Session Five: Investment analysis versus wealth management* How do we evaluate what makes a good investment? A wealth manager is responsible for gathering lots of information about a client to form an opinion as to what investments will be appropriate for him or her. But that effort is distinct from the equally important work of gathering information about individual investment performance, for which we rely on specialized investment analysts. In this session we will take a short detour into the domain of the analyst to understand the role he plays and the tools available to him. Our focus will be on the invaluable reporting analysts provide, guiding the portfolio decisions of wealth managers. (*Required reading: Evensky & Horan 373-382; supplemental reading to be distributed)*
6	*Session Six: Portfolio construction* Five inputs help a wealth manager to characterize the investment objectives of a new client: (1) time horizon, (2) income needs, (3) risk tolerance/volatility sensitivity, (4) liquidity needs, and (5) taxes. This session will address the basic tenets of constructing a portfolio, based on the profile we develop of our new client using the above. Topics will include equity portfolios, stock selection, and valuation metrics; fixed-income; mutual funds, ETFs, and outside manager styles; and increasing demand for socially responsible investing. We will pay special attention to the concept of diversification, and its specific role in high-net-worth strategies. (*Required reading: Chhabra 121-155; Evensky & Horan 193-232; supplemental reading to be distributed)*
7	*Session Seven: Illiquid alternatives, real estate, private equity, and hedge funds* Many of the valuable assets individuals care about most – homes, private companies, art collections – fall into the category of alternative or illiquid investments. We will begin with an overview of this type of asset, and of the advantages available to an investor with specialized knowledge of an asset class or industry. We will then turn to hedge-fund and private-equity investments and their allocation in high-net-worth portfolios. Here we will discuss the advantages and disadvantages of illiquidity; income, rates of return, and volatility in alternative investments; and understanding fees. (*Required reading:*

	Evensky & Horan 393-420, Chhabra 101-118; supplemental reading to be distributed)
8	*Session Eight: Personal risk, market risk, and aspirational risk* Modern portfolio theory provides us with the concept of the optimal portfolio, yielding the best possible return for a given amount of risk. More recently wealth managers have shifted away from a risk framework focused on returns to a so-called "goals-based" approach. In this session we will cover traditional definitions and measurements of risk before moving on to explore in more depth the use of a goals-based framework for working with high-net-worth clients. Creating discrete "risk-buckets" -- each corresponding to the level of risk a client can assume with a given portion of assets -- offers clients and wealth managers a context for describing their objectives, and for measuring outcomes without focusing exclusively on returns. We will outline categories of "personal risk," "market risk," and "aspirational risk," and discuss how they play out in the life of a client. (*Required reading: Chhabra 87- 99, 159-180; Evensky & Horan 33-74; supplemental reading to be distributed)*
9	*Session Nine: Income needs* Having described a model of goals-based investing we're prepared in this session to address the spending needs of our clients. Wealth management often prioritizes events in a client's life that involve major capital spending such as a child's education, or retirement. High-net-worth clients, by contrast, may present spending needs that are different in kind and in scope. We will consider several of the common spending areas among this clientele – e.g. funding a private business, purchasing high-end real estate, charitable giving – and align them with the "risk buckets" we are using to guide us. We will also discuss some of the partners a wealth manager may leverage around these needs – specialists in credit, banking, planning – to grow the client relationship. (*Required reading: Chhabra 57- 70; supplemental reading to be distributed)*
10	*Session Ten: Accounting and tax* High-net-worth individuals bear significant costs and concerns around tax. While wealth managers work in tandem with, and are not substitutes for, tax advisors, tax strategy touches every part of wealth management and requires special attention. This session will include a brief background into the history of accounting, double-entry bookkeeping, and tax law before turning to the practical issues considered by wealth managers creating tax efficient strategies for their clients. Attention will also be given to reporting, and how tax affects the accurate reporting of investment performance. (*Required reading: Evensky & Horan 233-265; supplemental reading to be distributed)*

11	*Session Eleven: Legacy, philanthropy, and wealth transfer* Our final discussion will be devoted to legacy and wealth transfer – to one's family and heirs and to charitable causes. Many factors influence a client's attitudes toward legacy planning, including whether his wealth was earned or inherited; his personal values and viewpoints; and dynamics among family members. Our session will describe planning vehicles used in wealth transfer, including family trusts, charitable trusts, family foundations, and donor-advised funds. That background will allow us to delve deeper into the unique challenges of guiding clients through wealth transfer decisions. We will discuss financial education for families, including young children and adult children; topics of stewardship and responsibility; wealth and religious traditions; and passing on values. (*Required reading: Supplemental reading to be distributed)*
12	*Session Twelve: Final group presentations*

METHOD OF EVALUATION

Class Participation	35%
Individual Presentation	40%
Final Group Presentation	25%

ASSIGNMENTS

Over the course of the semester each student will be assigned one supplemental reading to present in class. At the end of the semester students will be divided into groups to analyze a case study involving a high-net-worth individual or family and will present their findings to the class.

All of your assignment submissions are subject to the CBS Honor Code. Violations of the CBS Honor Code may lead to failing the assignment, failing the course, suspension, and/or dismissal. In order to avoid ambiguity that may lead to unintentional violations of the Honor Code, assignment description types have been standardized and specified below.

Type	Designation	Grade	Preparation of submission	Discussion of Submission*	Discussion of Concepts**
A	Group Work	Same grade for all group members	By the group	Permitted to discuss (within group)	Permitted
B[1]	Individual w/ Discussions of Concepts and Submission	Individual grade	Individual preparation	Permitted to discuss; sharing solutions or submission files is not allowed	Permitted
B[2]	Individual w/ Discussions of Concepts Only	Individual grade	Individual preparation	Not permitted to share/discuss solutions or submission	Permitted
C	Individual	Individual grade	Individual preparation	Not permitted to share/discuss solutions or submission	Not permitted***

* The designated group can be either an assigned study group or a self-selected one.

ATTENDANCE POLICY

Students are required to attend each class. Unexcused absences will affect your course grade.

INCLUSION, ACCOMMODATIONS, AND SUPPORT FOR STUDENTS

At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact the Columbia University's Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia

University's Office of Disability Services online at www.health.columbia.edu/docs/services/ods/index.html or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private, but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff and faculty. "Gender-based misconduct" includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students.