

Teaching the Financial Aspects of Estate and Business Planning

An Experiment in Curriculum Enrichment

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From January 1982 to May 1986 the University of Wisconsin Law School offered an elective course called "Financial Aspects of Estate and Business Planning." It was basically a course in investment theories, techniques, strategies and practices as they relate to stocks and bonds. Even though the course from time to time touched on legal aspects of investments and estate planning, it was appropriately offered as a non-law course. Students in the University of Wisconsin Law School are allowed to take up to six credits of graduate-level coursework in other departments of the University to count toward the 90 credits required for the J.D. degree if the non-law courses are reasonably related to the students' career plans. By taking the Financial Aspects course, students used up part of their allowable quota of six non-law credits.

The course was terminated in May 1986. As is usually the situation with courses which are not regarded as part of the core curriculum of the Law School, their continued offering depends on the availability of faculty interested in teaching them. Attorney Robert Arthur and I, who were the instructors in the course, decided we wished to pursue other interests in our semi-retirement. No other faculty member expressed an interest in continuing the course. Nevertheless, the course was an interesting and, I believe, worthwhile experiment in curriculum enrichment.

The course originated from discussions starting in late 1980 between myself, then Dean of the Law School, and Attorney Robert W. Arthur of Madison. Mr. Arthur has been a practicing attorney in Madison during most of the years since his graduation from the University of Wisconsin Law School in 1937. As part of his practice he has devoted substantial amounts of time to advising individual and business clients on investments and other financial matters. He long has believed that lawyers could better serve the interests of clients if they were more knowledgeable about various aspects of financial management and

investment planning as well as about how business ventures can be financed. In Mr. Arthur's words, "As you know, law students are not required, as a condition for entering law school, to have studied accounting, economics or investments. However, in law practice a fairly high percent of an attorney's client's problems concern financial problems, whether the client is an individual or a corporation."

As an aside, I might add that Mr. Arthur's words find recent support in a communication from the Chairman of the Real Property, Probate and Trust Law Section of the American Bar Association. A task force organized by that Section found that "financial planning was the single most important new development to challenge lawyers practicing in the fields of probate and trust law." [Fall 1986 Memorandum from Joseph Kartiganer, Chairman, Section of Real Property, Probate and Trust Law]

Mr. Arthur suggested a course patterned after a course in the U.W. Business School which involves a practice aspect in the sense that the students have available to them a substantial sum of money which they invest. Mr. Arthur offered to contribute money to the Law School which would serve a similar function in the Law School course.

During 1981, discussions of this proposal proceeded at two levels: (1) Discussions in Law School faculty meetings led to the approval of the course in principle late in the fall of 1981; the course was to be offered on an experimental basis as a non-law course. (2) Discussions between Mr. Arthur and the University of Wisconsin Foundation staff about the details of the gift of money to be used in the course's investment program led to the eventual consummation of an agreement between the Arthurs and the UW Foundation on April 17, 1982.

The agreement provided that Robert and Irma Arthur would contribute money to the Foundation for use in the course's investment program. However, during the period that the course was



Robert W. Arthur received his law degree from the University of Wisconsin in 1937. Except for serving as division head of the Office of Price Administration during World War II and as District Attorney for Dane County for a term, he has been in private practice in Madison since his graduation. His practice has been concentrated in the business law area and, in recent years, particularly in the financial aspects of estate and business planning.

Orrin L. Helstad graduated from this Law School in 1950, and joined our faculty in 1961 after serving with the Wisconsin Legislative Counsel. He became acting Dean in 1975 and was Dean from 1976 to 1983. Since returning to teaching, Orrin has directed the General Practice Course and co-taught the Estate and Business Planning seminar with Mr. Arthur.

being offered in the Law School, the Foundation would have no legal responsibility for the funds. Upon termination of the course, whatever funds were in the course's portfolios at that time would revert to the custody of the Foundation to be used as the basis for an endowed fund in the Law School in the Arthurs' name.

The Academic Component of the Course

We started offering the course in the second semester of the 1981-82 academic year. The clinical or investment component of the course had not yet been worked out, so the initial semester was strictly a classroom offering. I had hoped to find someone with an academic background in the area of investments to teach the course. However, I was unsuccessful in this effort and so decided to accept the challenge myself. Mr. Arthur agreed to assist in teaching the Course.

The book selected for use in the course was "Investment Analysis and Portfolio Management" by Cohen, Zinbarg and Zeikel (Richard D. Irwin, Inc.). The book is used as a text in some business school courses, and I understand it also has been used as background study for the Certified Financial Analyst examination.

In the fall of 1982 we embarked on a format which, subject to some refinements, continued throughout the remaining years of the course. We decided to make the course a two semester offering. The first semester focused heavily on the material in the coursebook. The second semester was essentially a continuation of the first semester's work and was open only to those who had taken the course in the first semester unless special permission to enroll was granted. The subject matter is a large one, and we also thought that a year-long course would offer students a better opportunity to watch the performance of the investments they had recommended.

It was my responsibility to cover the more theoretical part of the course. To summarize this part very briefly, I can say the students learned about investment and market terminology, the nature of securities markets and how to go about obtaining investment information. We devoted a considerable amount of time to "modern portfolio theory" with its emphasis on investment objectives, risk-adjusted returns and portfolio construction and management. Considerable time also was devoted to what might broadly be termed security selection, including fundamental analysis, technical analysis

and market timing.

Mr. Arthur would lecture each week on some investment, financial management or estate planning topic of current interest. His discussions often were based on articles which had appeared recently in the financial journals or newspapers. He also would discuss his current list of recommended investments. Because of his vast investment and financial counseling experience, his participation lent a degree of credibility to the course which otherwise would have been missing. He would sometimes agree with the theoretical material I presented and sometimes challenge it. We usually also brought in one or two guest lecturers each fall and many additional guest lecturers in the spring semester offering of the course.

The spring semester segment of the course was treated more like a seminar than a course. We would discuss a number of relevant investment and financial planning topics which had been inadequately covered or not covered at all in the fall semester. Students were required to write papers on topics pertaining to investments or financial or estate planning. In addition, each student had to prepare a portfolio paper. Grades were based on the two papers. A number of guest speakers participated in the second semester offerings of the course to give the students a variety of perspectives on investments and related topics.

The Investment Component of the Course

A special aspect of the course was to be the participation of the students in actual investment decision-making. As I mentioned previously, Mr. Arthur's initial concept of the course was based in part on a course which has been running for many years in the U.W. Business School. A selected group of graduate students who already have an academic background in investment analysis and portfolio management are given a sum of money (provided by the Brittingham Fund) to invest over the 9-month period of the academic year, thus giving them a chance to apply the theories they have learned in their prior coursework. Since law students would not have the same extensive academic background, it was thought desirable to provide some guidance. This was to be done in part through an advisory committee of businessmen and lawyers.

Mr. Arthur provided a list of names of persons he thought would be appropriate advisory committee members. These were invited to serve, and many accepted. Those who remained on the com-

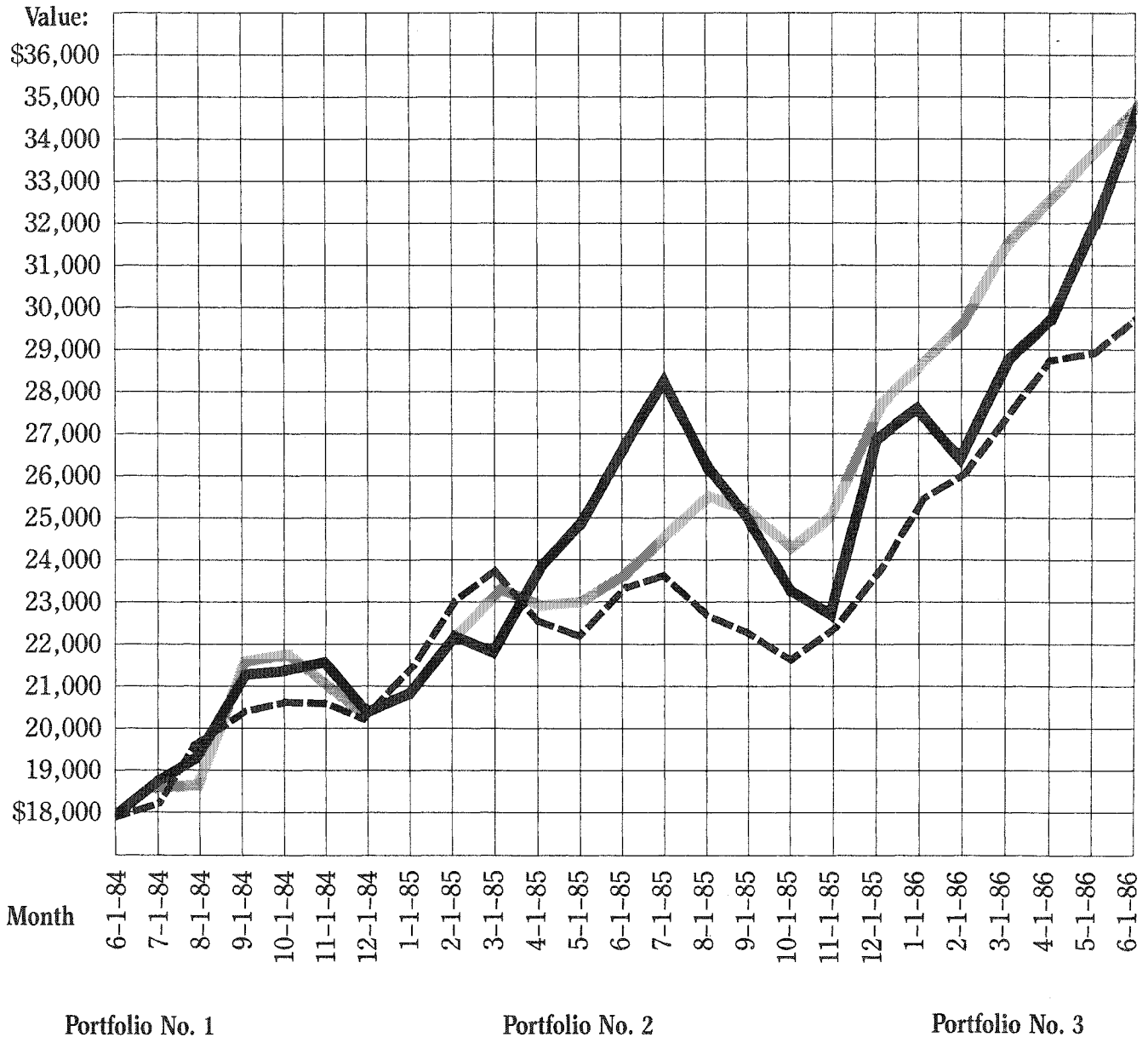
mittee from the summer of 1982 to the termination of the course were Mr. William J. Arthur, Sycom Corporation, Madison; Attorney Lawrence J. Bugge, Madison; Justice Roland B. Day, Madison; Attorney Jack R. DeWitt, Madison; Dr. Peter Rank, Madison; and Attorney Roy D. Stewart, Racine. Attorney John Fiorenza of Milwaukee also was a member at one time as were several students who had completed the course.

As it turned out, most committee members, although interested, did not take a very active role in the investment program. Most investment decisions, particularly during the first two years of the program, were made by the students, subject to considerable assistance from my co-instructor in the course, Mr. Arthur, who on a weekly basis supplied the students with lists of stocks he was currently following.

One of the students' assignments in each semester was to write portfolio papers. Each student was expected to examine perhaps six securities of his or her choice, examine the economic and investment climate and the performance of the class portfolio and then make recommendations as to investment decisions which ought to be made. These papers would be prepared prior to the final class meeting of the semester. At that meeting, students discussed and voted on the various recommendations brought to the class by the individual members. If the classes were quite large, as was often true in the fall, students were divided into teams, and each team was asked to bring in consolidated recommendations. At least this is the way investment decisions were made in the first two years of the program. I will comment later on the last two years of the investment program.

The initial investment of \$35,000 was made in December 1982 as a result of decisions made by the students in the last class meeting of the fall 1982 semester. In April 1983 Mr. and Mrs. Arthur contributed an additional \$38,000, so the students who enrolled in the spring 1983 semester had the opportunity to make additional investment decisions.

The portfolio performed well until about the end of June 1983 at which point it had a market value of about \$83,000. The portfolio was well-diversified among companies—altogether 19 different issues. However, it was not well-diversified among industries. In retrospect, that turned out to be a mistake. About half of the 19 stocks held in the portfolio were technology stocks—most of them in small companies. These had performed very well for a time but took a beating in the summer and fall of 1983. A good deal of trading went on in an



attempt to resurrect the portfolio but without much success. By March 1984 the market value of the class portfolio was down about 40% from its June 1983 level.

In part because of this apparent lack of investment success but at least as much for educational reasons, I recommended in the spring of 1984 that the class portfolio be restructured into three separate portfolios, each with a different investment philosophy and strategy. Each portfolio would be started with exactly \$18,000 of assets, thus making it easy to compare performance over a period of time. I had become convinced that a serious investor must try to develop a philosophy and methodology which best suits him or her. Some individuals are so risk

averse that they probably should not invest in stocks at all. Others are willing to take substantial risks in the knowledge that, over time, there are likely to be commensurate rewards. Students enrolled in the course in the spring 1984 semester selected stocks for the three portfolios in accordance with the portfolio guidelines we established.

Portfolio No. 1 was named the "Arthur Portfolio." Students assigned to this portfolio were asked to select stocks consistent with Robert Arthur's philosophy of investing. The Arthur method would be described by most analysts as aggressive, seeking gains averaging 4% per month over a 4-year period. The emphasis is on stocks which have demonstrated a pattern of rapid growth over a period of

three or four years. Stocks which decline in value by 10% or more are reviewed and considered for replacement.

Portfolio No. 2 was labeled the "Investment Horizons Portfolio" after an investment advisory service by that name. The portfolio features small company stocks. Historical studies have shown that over a fairly long investment period (at least four years and preferably more), small company stocks will provide a greater total return on a risk adjusted basis than large company stocks. Investment in small company stock can be riskier than investment in large company stock, but risk can be reduced in three ways: (1) By selecting stocks of apparently sound companies with an established track record of growth; (2) by hold-

ing a large number of issues (at least 14), and (3) by setting a time horizon for the investment which is at least four years in length and preferably longer. Students were asked to select 16 issues from among the 62 being carried on Investment Horizons' list of recommended stocks in the spring of 1984.

Portfolio No. 3 was called the "Conservative Portfolio." Students assigned to this portfolio were asked to construct a portfolio for risk-averse investors. The students selected five blue chip stocks and a \$5,000 3-year certificate of deposit yielding 13 1/4%. With regard to both this portfolio and Portfolio No. 2, the presumption was to be against extensive trading.

The Advisory Committee approved this restructuring of the class portfolio. Mr. Arthur was given general supervision of Portfolio No. 1, and I was given general supervision of Portfolios No. 2 and No. 3. Students continued to analyze the portfolios over the next two years and to make recommendations for changes. The three new portfolios were officially started as of June 1, 1984.

It is perhaps unwise to draw many conclusions from such a brief experience; our initial plan had been to think in terms of at least a 4-year investment horizon. However, here are a few observations for whatever they are worth:

1. The two-year period turned out to be almost an uninterrupted bull market in stocks, so one should not be surprised to see substantial appreciation in the market value of the three class portfolios. However, even taking the bull market

into account, it can be shown that the three portfolios did exceptionally well. Both Portfolios No. 1 and No. 2 outperformed the Standard and Poor index of 500 stocks—a fairly common measure of investment portfolio performance. The total return (appreciation plus dividends) of the S&P 500 for the two years we held the portfolios was about 32% for the first year and about 34.5% for the second year. Portfolio No. 1 had a total return of 47.3% during the first year and 29.2% for the second year. Portfolio No. 2 had a total return of 32.3% for the first year and 46.2% for the second year. Portfolio No. 3, as could be expected from its conservative nature, did not quite match the S&P 500. It had a return of 28.5% in the first year and 28.3% in the second year. All three portfolios certainly were well on their way to meeting the 4-year total return goals which the class set for them at the start of the investment period—namely, a total return of 25% per year for Portfolio No. 1, 20% for Portfolio No. 2 and 15% for Portfolio No. 3.

2. All three portfolios performed better than expected when analyzed on a risk-adjusted basis. Students in their portfolio papers often undertook an analysis based on this aspect of modern portfolio theory. Portfolio No. 1 did not quite meet the Arthur Method goal of 4% per month. However, in fairness it should be noted that Mr. Arthur did not apply the Arthur Method in all its aspects to this portfolio. The portfolio was not as well diversified (i.e., held fewer issues) than he normally would recommend and, because so few issues were held, transac-

tion costs had a disproportionately negative impact whenever stocks were traded.

3. Portfolio No. 2 demonstrates the importance of diversification as a way of reducing risk. Some of the small company stocks did not perform very well during the two-year period but other stocks in the portfolio more than made up for this lack of performance on the part of some.

Conclusion

The course in Financial Aspects of Estate and Business Planning was an interesting and, I believe, successful experiment in curriculum enrichment. I personally learned a great deal about the business and investment world through my participation, and I believe the same can be said for many of the students who took the course.

I express thanks on behalf of the Law School and myself to Robert and Irma Arthur for their generosity in contributing the funds which made possible the investment portion of the course. Not only was this an important aspect of the course, but the more than \$90,000 in the class portfolios at the termination of the course will provide the basis for an endowed fund which will continue to benefit the Law School for years to come. Thanks also to Robert Arthur for his faithful participation in the teaching of the course and to the guest lecturers and advisory committee members who gave of their time and talent. Their cooperation made it a better course than it otherwise would have been.