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# **Financial Planning During Turbulent Times: Role of Household Wealth**

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# You Did What! on Your Vacation?

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“How We Decide” by Jonah Lehrer

Two identical auctions at MIT for Boston Celtics basketball tickets - only difference is that in one must pay in cash – the other must pay with credit card

How did the bids compare? Average credit card bid **twice** that of cash bid. Yikes.

# PFP Degree Programs

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The vast majority of graduate degree programs in personal financial planning are not in business schools, but in schools of consumer science...

Curriculum sweet spot – blend behavioral and technical

That's the plan today...

# Application to Atlanta Metro

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Georgia routinely is among the “leaders” in bankruptcy filings.

## Characterization of Atlanta Metro...

Sustained population and economic growth

Entrepreneurship is strong – people are *busy*

Well diversified local economy

Steady appreciation of real asset values

“New Money” mentality – movin’ up a level

# Return to Behaviors

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Experiment where participants have to remember either a *two* or a *seven-digit* number for subsequent use.

Along the hallway to complete the experiment, participants are given the choice of a fruit cup or a (decadent) piece of chocolate cake.

*Seven digit players take the cake.* If the rational brain is busy, the emotional brain can take over.

# Behaviors and Experience

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How does experience matter in a crisis?

The rational and emotional/intuitive brain can cooperate if neither is dominated.

Pilot of DC-10 flight that suffers complete loss of hydraulic power combines technical and emotional/intuitive power of brain.

# Return to Technical Analysis

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What is the value of a strong balance sheet?

Corporate perspective...Provides strategic options and the ability to survive difficult times.

Value is a combination of *stock* and *flow*

Often the stock of value (balance sheet) receives less attention than cash flow analysis...

Atanasov, Black, Ciccotello, and Gyoshev (2009)

# Intersection – Personal Implications

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Brain likes to get stuff now...pay later

Rational brain preoccupied with work...here comes the chocolate cake

New money brain has little experience with crises...

New money balance sheet...

Balance sheet built from recent appreciation of assets rather than accumulation or debt pay down.

In the 1990s, this was stock market appreciation

In the 2000s, this was real estate value appreciation



# Lifestyle – “Status” Competition

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Choose your house and your neighborhood...

Household furnishings to suit

Cars to suit

Schools for children to suit

Vacations to suit

Other “toys” to suit

Once struck, lifestyle costs are very sticky

Throw in a shock to revenue..high unemployment

# Balance Sheet Issues

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New money balance sheet strains to address  
income loss...and liquidity squeeze

Recent asset appreciation slows or reverses

Reduced lines of credit

Assets in tax-deferred (401k type) locations very  
expensive to access

New money brain has never seen anything like  
this before...complete loss of “hydraulics.”

# Georgia Specific – Slowing Growth

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Ten-county Metro Atlanta population growth for year ended April 2009 was about 25 K people

Smallest one-year growth since statistics began in 1990

Average growth per year since 2000 – 77 K people

Growth in the Georgia banking sector also slowing

But, with 4.1 M people (Apr 2009), Metro Atlanta population is greater than that of 24 states.

# Bottom Line

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Georgia is a new money region of the country that has had sustained economic growth over the last 20 years.

Slowing growth and increasing unemployment hit new money lifestyles hard both technically and behaviorally – e.g., GA, FL, AZ, CA

Like corporations, balance sheet strength matters for individuals and families.

Consider the benefits of building balance sheet strength through increased liquidity and reduced leverage.