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Financial Advice From 3 Top Professors On National Teacher Appreciation Day

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By Tom Anderson

Time to polish that apple.

Today is National Teacher Appreciation Day, the highlight of Teacher Appreciation Week, which has been celebrated the first week of May since 1985. National Teacher Appreciation Day is “a day for honoring teachers and recognizing the lasting contributions they make to our lives,” according to the National Education Association, which created Teacher Appreciation Week.

Great teachers have earned their day in the sun. Without their guidance, we would not be the people we are today.

One of my favorite teachers was Craig Israelsen, who taught personal finance at the University of Missouri for more than a decade. His clear-eyed introduction to the basics of building a budget, saving for retirement, and investing for the future made me realize that using credit cards to fund my social life was a horrible financial decision. That realization saved me thousands of dollars in school and has put me on solid financial footing ever since I aced his class.

I asked him and two other top finance professors what advice they would give to college students set to graduate this summer:

Check your investments infrequently

“I’ve received a lot of helpful advice over the years. Perhaps the most useful is this: ‘If you want to take volatility out of your portfolio—check it less often!’’’ says Israelsen. Ron Muhlenkamp, founder and manager of the Muhlenkamp Fund, gave Israelsen that nugget of wisdom when he was researching the investment portfolio design of mutual funds.

A 2014 study from Columbia Business School professor Michaela Pagel supports Muhlenkamp’s advice. She found that the less frequently investors check their portfolios, the better off they did over time. Why? Because investors who regularly checked their portfolios were more likely to buy low-risk assets during short-term market blips, which slowed the growth of their portfolios compared to those investors who stayed the course.

Diversify your portfolio

Even if you are checking your investments infrequently, "don't put all your eggs in one basket … diversify," says Reena Aggarwal, finance professor and director of the Center for Financial Markets and Policy at Georgetown's McDonough School of Business.

That's the best financial advice Aggarawl, who specializes in global financial markets, received in graduate school.

Diversification is one of the few free lunches in investing. It means to invest in different types of assets – such as stocks, bonds and cash – to increase returns while reducing volatility. A number of studies have documented the benefits of diversification.

To see how diversification works, consider an analysis by Fidelity, one of the largest managers of retirement accounts in the U.S. Fidelity compared a diversified portfolio of 70% stocks, 25% bonds and 5% short-term investments to a 100% stock portfolio and an all-cash portfolio during and after the financial crisis. During the crisis, all-stock portfolio lost nearly half of its value while the diversified portfolio lost a little more than a third and the all-cash portfolio gained slightly. Five years after the bottom, the all-stock portfolio rose by 162.3%, the diversified portfolio by 99.7%, and the all-cash portfolio by 0.3%. Over the entire cycle – from January 2008 through February 2014 – the diversified portfolio was up 29.9 %, while the all-stock portfolio rose 31.8% and all-portfolio gained just 2%. Bottom line: the diversified portfolio delivered similar returns to the all-stock portfolio with less volatility.

Free portfolio tools from the mutual fund research company Morningstar and online financial advisor Personal Capital can help you determine what is the right mix of investments for you.

Invest in a graduate degree

Financial advice isn't all about investing. "The best financial advice I ever received was to pursue a PhD in finance," says Terrance Odean, a behavioral finance professor at Berkeley's Hass School of Business. The advice was given to him by Nobel Prize-winning economist and founding father of behavioral economics Daniel Kahneman. At the time, Kahneman was a psychology professor at Berkeley when Odean was an undergrad.

Though much has been written about the rising costs of education, studies have shown that obtaining a graduate degree can boost one's income over a career. For example, the Georgetown Center on Education and the Workforce found that median annual earnings of those with a graduate degree, irrespective of tenure, were at least $13,000 higher than those who only possess a bachelor's degree in the same field. And the benefit of a graduate degree is higher than the average in many technical fields, such as in the physical sciences, where the median graduate degree wage premium was $37,000 per year.

It's true that a graduate degree can be expensive. The average graduate student leaves school with $57,000 in student debt. One way graduate students can lower that burden is through refinancing their student loans to a lower rate. For example, CommonBond, my employer, saves the average borrower more than $14,000 over the life of their loan thorough refinancing.

Fortunately, you don't have to be accepted to Berkeley's Haas School of Business to benefit from Odean's knowledge of personal finance. He is currently teaching a free online course at edX.

Whether your favorite teacher gave you great financial advice or just a better understanding of how the world works, National Teacher Appreciation Day is a perfect time to let them know how they changed your life.