Your Money and You

A college student's guide to money management

A look at college students and their finances at Penn State Behrend

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"I need money! I am so broke!" Do these words sound familiar? Chances are, if you are a college student, you have probably uttered these phrases more times than can be remembered. We recently asked Behrend students several questions about their finances, hoping to learn how college students really handle their money.

When asked how students received their money, the answer was split almost in half. Of the 64 students surveyed, 31 said that parents are their source of income, while the remaining 33 students have jobs. The majority of students have jobs at home, such as working for parents or retail positions. Others are employed by Behrend in Bruno's, Dobbins, and the library. Work-study positions at Behrend are also sources of income for some students.

According to the Office of Financial Aid, nearly 660 Behrend students have work-study positions. That equates to approximately seventeen percent of the campus population. Because most students always claim to have no money, we decided to ask them how often they receive either their "work paychecks" or "parental paychecks." Thirty-five percent of everyone surveyed reported that they receive money every two weeks from parents or jobs. Twenty-five percent of the students obtain money either every week or upon request, and the remaining six percent of the students get money on a daily basis or else on a monthly basis.

The question that received the most diverse responses was, "what do Behrend students buy with their money?" Surprisingly (or maybe not surprisingly), the most common response was not tuition. Instead food received the most votes, followed closely by clothing and shoes.

Entertainment and going out with friends was also a popular way to spend money. Personal items and "other" items (everyone reading this can certainly figure out for themselves what belongs in this category) took precedence over bills, transportation, savings, and finally, tuition and books.

A 1998 study by Georgetown University sociologist Robert Manning reported that nearly 70% of undergraduate students at a four-year college possess at least one credit card. Penn State Behrend students are certainly no different, as approximately 75% of the students surveyed carry at least one major credit card. Most students here claim that they do not carry balances on these cards, but for those of you who do have balances, beware: you are known as "revolvers" and are likely to end up with an average balance of more than $2,000. The study found that students with credit card debt are forced to decrease their credit load and are more likely to quit college due to the debt, rather than academic failure.

However, everyone knows that credit cards are easier and often safer to carry than cash, so it is no wonder that many of us have them. Some of the credit cards include Mastercard, Visa and Discover. Debit cards are also a popular alternative to credit cards probably because the risk of debt is virtually non-existent.

Finally, students having credit or debit cards were asked, "Do you charge or write checks more than use cash?" Only two students responded by saying that checks were the method of payment, while seventeen students admitted that credit cards come before cash. The rest of the students said that checksand cards were used only as a last resort.

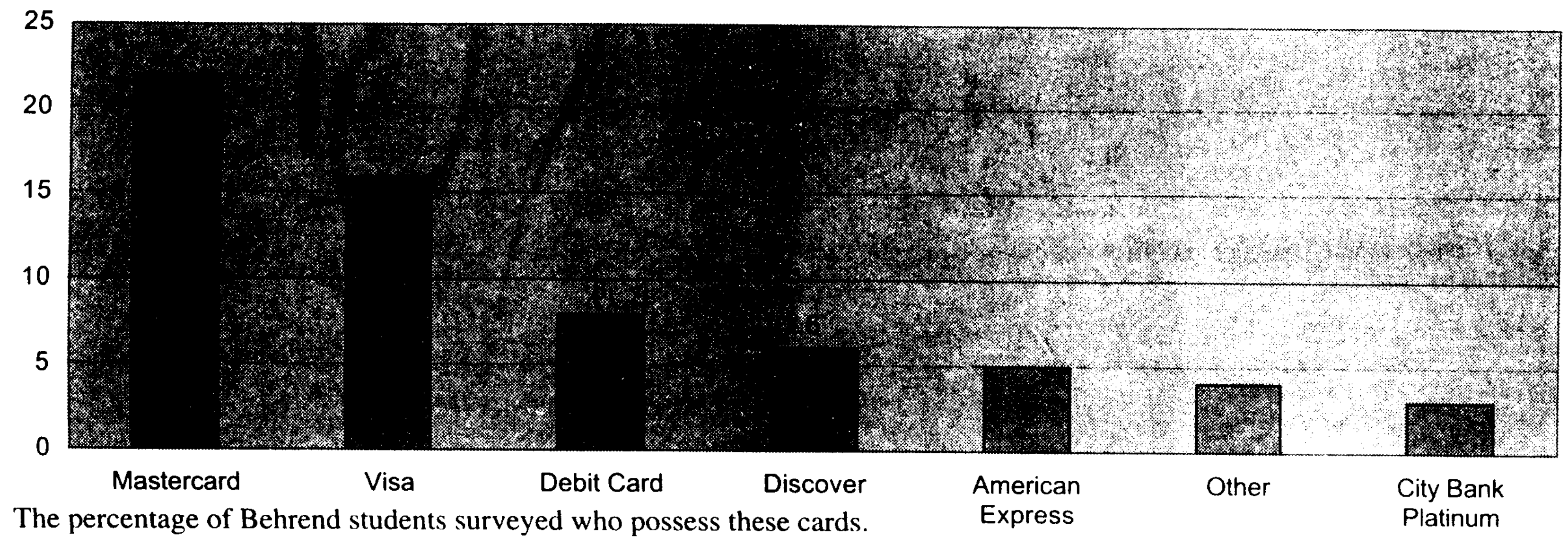
Students must prepare to enter the real, working world. No longer will we have our parents to send us money at our beckoning, nor we will be able to take that money and buy that cute new sweater or ever-important pair of sneakers.

"Bar-hopping" and eating in restaurants will be a luxury and for special occasions; not an everyday ordeal. Instead, we will be buying groceries, paying rent and utilities, and eventually, supporting families and saving for retirement. But for now, we say "hey, why not act our ages and enjoy life?" We can worry about the real world in a few semesters.

Currency Converter

Here are the current exchange rates for some major currencies against one U.S.Dollar:

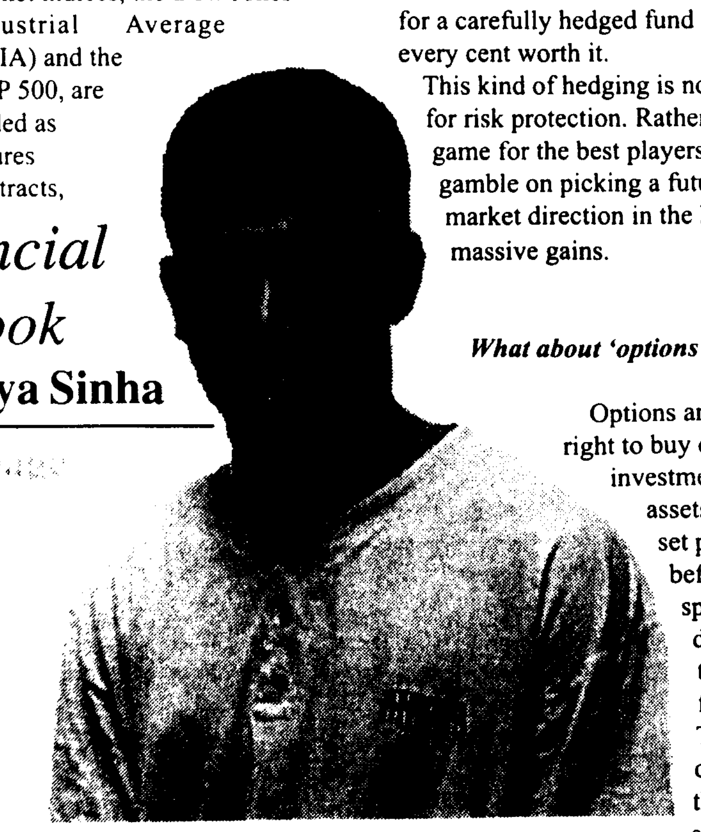
French Franc:
7.65
Deutsche Mark:
2.28
Euro:
1.16
Japanese Yen:
108.87
Swiss Franc:
1.77
British Pound:
0.70
Canadian Dollar:
1.55
Singapore Dollar:
1.74



The percentage of Behrend students surveyed who possess these cards.

"Money doesn't grow on trees....."

Financial Outlook
Amortya Sinha



Fine, I agree! Maybe there aren't any money trees around, and maybe you never liked botany anyway; but now there is a reason why you should start to. How many times have you heard the term *"hedging"* (or more frequently *"futures"*)? C'mon, at least once or twice, right?
All you business majors out there probably know this term in your sleep by now right? Well if you don't remember or know; you should by the end of this article.
No, don't worry; it has nothing to do with botany but it does have to do with green...in fact lots of GREEN. Get the hint?

What is "hedging"? Why "hedge"?

Hedging is when an entity, such as an individual investor(s) or a corporate firm, invests in the future market price of commodities (oil, gold, etc.), stocks (national or international) or other bonds, foreign currencies. Financial hedging involves buying and selling futures or options on stocks, bonds or currencies.

Hedging can protect companies and banks against unexpected developments, for example sudden falls or rises in the value of currencies or commodities.
The role of hedging has taken on new importance, especially due to the Asian, Russian and Latin American crises, which have made world financial markets extremely volatile.

Investment banks offer financial 'instruments' to hedge against such risks. These instruments are called *'derivatives'* because they derive from an underlying financial asset - in this case, stock or commodity prices.

How did hedging come into being?

The history of hedging started off with commodities like wheat or coffee, which were the subject of 'futures' trading. Traders bought and sold 'future' contracts - an agreement to buy coffee, say, in three months time at a certain price - protecting themselves from the worry that a crop failure might make the price of coffee sky rocket in the upcoming months.

However in the 1980s, financial 'futures' began to dominate trading. For example, the main US stock market indices, the Dow Jones Industrial Average (DJIA) and the S&P 500, are traded as futures contracts, involving a guess as to where the averages will be in the future.

Hedging: A lucrative business?

Hedging can be highly profitable and many banks have found trading such derivatives very rewarding. Some investment bankers have turned such hedging instruments into a business itself. To finance their operations, they seek investments from rich individuals and financial institutions.

These companies are called ***hedge funding companies***, which is misleading, as they do not provide any hedging at all. If you want to invest in a hedge fund, you will have to pay in at least a quarter million dollars.

Hedge fund experts make predictions on major market movements. They can move billions of dollars around the world overnight to 'take positions' in readiness for changes. These 'positions' are really just bets on future prices. These 'bets' are for very high stakes, often in several billions of dollars, but the rewards for a carefully hedged fund makes every cent worth it.

This kind of hedging is not done for risk protection. Rather it is a game for the best players to gamble on picking a future market direction in the hope of massive gains.

What about 'options'?

Options are the right to buy or sell investment assets at a set price before a specified date in the future. The options themselves usually cost a fraction of the price of an asset itself. These serve the purpose when you think the price of the investment will fall or is falling and you don't want to lose money waiting till the date, the future matures.

There are more complicated arrangements, which involve trading one type of asset for another, called *'swaps'* or *'swaptions.'* This might involve switching between both interest rates and currencies— for example, trading a 10 year US Govt. bond for a 5 year EU one at a different interest rate.

Hedging: an example

In the simplest example of a currency hedge, an American planning to vacation in England might take twice as much as he would spend with him. Since the British Pound is stronger than the US dollar, and the US economy is showing signs of slowdown, he might want to safeguard his savings from a recession by putting it in a bank there for a while.

But it is unlikely he would be in a position to put all his funds now into the British currency. Instead he might buy 'options' for only $10,000 worth of pounds. The options bought would allow him to buy the currency for a set price in six months time. If the pound rises, or the dollar falls - he retains the right to buy at the more favorable rate by using his options.

If the opposite happens, he lets his options expire and loses what he paid for the option. In buying now, protection against a worsening in the exchange rate has been bought - his funds have now been 'hedged' against future possibilities. So hedging in short resembles a sort of an insurance policy.

Finally the fine print!

Hedged investments are often made with lots of borrowed money, raising the risks of problems of things go wrong. Several hedge fund firms have filed bankruptcy within one year of incorporation and several hedge fund investors have become homeless after being billionaires.

The secret to doing well in this type of an industry is experience and of course taking risks, but calculated risks. Otherwise remember: it's a long way down, especially when you fall flat on your back.

Pair of Ohio college sophomores operates Scholarshops.com

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Knight-Ridder Tribune

Ryan Doherty and Eric Gilmore look and sound like budding entrepreneurs. They have business cards, cell phones and polo shirts with the company logo. But they are 19-year-old college sophomores.

Doherty, a University of Dayton entrepreneurship major, sat in his Irving Avenue apartment and talked about venture capital and marketing strategies on a Friday morning, while his roommate slumbered on the couch. Drywall in the hallway sported a gaping hole, acquired during a rowdy party.

Doherty and Gilmore clearly have one foot in the college world and one in the dot-com world.

The pair, plus Gilmore's brother Jeff, operate ScholarShops.com. It's a Web site that offers rebates on purchases from 450 merchants, including L.L. Bean, 1-800-Flowers and Dell Computer. Students save money on purchases, while ScholarShops.com makes money on transaction fees. A student's friends and family can make purchases through ScholarShops.com and earmark the rebates for that student. Participating merchants sacrifice a little revenue to get more online sales volume, Gilmore said.

Gilmore and Doherty began kicking around ideas for an Internet company after graduating from Cincinnati's St. Xavier High School. They came up with the idea of a marketplace that would benefit college students, rewarding loyalty with cash rebates. Although geared toward students, anyone can use it.

Gilmore, an Ohio State University sophomore, said once people see its easy to use, traffic on the site and the purchases will increase. Launched a month ago, it has generated $20,000 in sales, they said.

Gilmore and Doherty said they raised $200,000 from angel investors and their own money to develop the business and are now looking for $1 million to $4 million in venture capital money to market it to a national audience.

"Once we get funded, that's where all the fun begins because it is applying ScholarShops.com to the market," said Gilmore.

The days of dot-com entrepreneurs landing million-dollar checks from investors based on a business plan written on a paper napkin are over, they said. Venture capitalists want sound business plans with multiple revenue streams, good marketing strategies and solid managers. Although lacking management experience, the pair say they have in their corner high-powered advisers with business acumen.

Gilmore and Doherty said it's tough to juggle school work and a business start-up. There's always the temptation to drop out of college and cash in on the dot-com gold rush, but Gilmore said he's committed to getting his education.

"Plus, our parents are not going to let us drop out of school, plain and simple," Doherty added.