Your Money and You

A college student's guide to money management

'Tis the time to be jolly (and SHOP)

Over the holiday season, the average American household charges $1,300 on credit cards, according to card tracker CardWeb.com.

Consumers spent 27% more than they'd planned for holiday gifts, according to the International Mass Retail Association. But it's not as bad as it sounds - 44% of Americans pay off their credit-card bills faithfully every month, up from 29% about ten years ago, again according to CardWeb.

Here are some useful tips on how to avoid the debt trap and yet get the gifts for your near and dear ones:

The 35% margin rule –

The bottom line of this rule says that a strong economy does not always mean better consumer finances. In fact, a lot more Americans file bankruptcy during better economic periods as credit is more easily available.

Any good news? Personal bankruptcies have dropped the past two years. For the past year through June, only 1.24 million American individuals filed. That data, the most recent available from the Administrative Office of the U.S. Courts, shows an 8% drop since last year.

If your debts accounts for more than 35% of your disposable income, that's bad news. It leaves you with little or no flexibility if something goes wrong. However, most people don't get into disastrous financial trouble by over-spending. But overspending is a problem that can cause people to go broke if it's compounded by an unexpected event, such as a job loss, family breakup, or a big medical bill

Strategies for Christmas spending -

Many people leave their Christmas shopping until the last minute.

Financial Outlook

Amortya Sinha

Men are twice as bad as women about it.

According to the International Mass Retail Association, one in five men had little or no Christmas shopping done even when they were into the last week. Just one in ten women had no shopping done.

This means that consumers can't take advantage of early sales and bargains. Last-minute shoppers are also unlikely to have saved up, which makes credit all the more tempting.

Buy ahead, if possible. Before you go to the mall, make a list. Stick to it. Mark down what you spend. If you overspend in one area, you need to cut in another area. Sticking to a list reduces impulse buying, which is typically what gets people in financial trouble.

Money.com has a holiday calculator to help shoppers plan their spending.

Cash instead of credit -

Shoppers can also cut back on their spending by leaving their cards at home. Take cash instead, which will force you to budget.

If you're short on cash, think of alternative gifts. A book of coupons for driving trips, home-made meals or to do laundry is personal but doesn't cost you anything. Such ideas might make a great gift for a grandparent, niece or nephew or a cousin who attends college.

Paying the minimum is a big NO, NO -

Overextending your credit can be very expensive. Robert McKinley, CardWeb's CEO, notes that the average interest rate offered on credit cards is 16%. But with penalties and fees, consumers actually end up paying a weighted average of 18% annual interest, he said.

"We're in an environment right now where there's a lot of strain in the profitability of credit cards," McKinley explained. "Issuers are looking to hit you with fees and those sorts of things."

That's 1.5% a month. If you're paying just the minimums on your cards, you may well be only paying 2% of your debt back a month or $40 on $2,000 dollars in debt.

With the interest clock constantly ticking, it'll take 30 years to pay off a $2,000 debt at 18%, he said, if you just contribute the minimum. Minimums normally barely cover interest charges.

"Making the minimum payment is probably one of the biggest expenses any consumer can make," McKinley said. "You can end up paying for this Christmas for years to come."

O.K, you didn't get my advice for last Christmas and now you still have those bills from last year. Don't panic! Help is here....

If you have overdone it, pay off the balance as soon as possible: even if that means less gifts or cheaper gifts. You come first because without you, there would be no gifts from your side, would there? You are not being selfish, just smart.

Play by the credit card rules. Don't bend or break them or try to go around them. At the end of the day, you'll be paying very heavy penalties if do.

If you've used more than one card, make a list of your debts with their interest rates. Tackle the most expensive debt first – not necessarily the biggest – while paying the minimums on the rest.

When you've paid off the most expensive debt, devote your resources to the next debt on the list. Even though this means you may not be able to hang at your favorite bar or nightclub every weekend or see the latest movies or lease that new sports car.

From the desk of the Money Page Editor

It has been a fast 16 weeks of the semester and for the Money Page. The Money Page was a new idea for this semester with the goal to make students and the community at Penn State Behrend more aware of the financial stories and happenings around the world as well as in the United States.

My editotial column is an effort to introduce to the community at Behrend the world of investing and money management using the simplest terms and examples possible, so even non - business majors can grow an interest in the financial world that surrounds us.

The time has finally come for you, our readers, to respond to us with your frank opinions and suggestions that would help us make this a better and more educational reading.

Please email any comments, suggestions or complaints to axs428@psu.edu Thank you for reading the Money Page and have a happy holiday season.

Amortya Sinha - 12/08/2000.

College students compete in U.T. - Austin, Texas

by Jerry Mahoney
Knight-Ridder Tribune

In the lobby of the McCombs School of Business, a stock-market ticker reported that the Nasdaq composite index closed at 2,598 on Thursday -- the first time the technology-heavy index had closed below 2,600 since August 1999.

Hope springs eternal in an MBA student's heart, however. Upstairs, the depression in Internet stocks and the struggles of Web-based startups did not deter participants in the 16th annual Moot Corp. competition at the McCombs Business School at the University of Texas , where 13 teams of student-entrepreneurs pitched business plans to judges.

It was the semifinals in the UT-sponsored contest that will give the winner a year at the Austin Technology Incubator and $5,000 in prize money -- and other prizes, such as help from consultants, that could jump-start a business. The competition has changed in recent years to become more of a real-world proving ground for those seeking a master's degree in business administration.

"Starting in the '90s, it shifted to become not an intellectual exercise, but a launch pad for new ventures," said Gary Cadenhead, a UT business school lecturer and director of the Moot Corp. program. The competition was launched in 1984 by UT business students, who patterned it after Moot Court, a UT Law School program in which a simulated appellate court hears students argue an assigned case.

In 1995, the growing role that venture capitalists play in financing startups prompted Cadenhead to appoint them as contest judges in place of some entrepreneurs, lawyers and accountants who worked with new companies. Austin companies that competed in earlier Moot Corp. events include Internet software provider Dryken Technologies Inc., Ampersand Art Supply Inc. and SmartPrice.com Inc., a consumer-oriented site that compares rates for long-distance and other telecommunications services.

But the Internet, including broadband technologies, inspired most of the teams in Thursday's semifinal event. In fact, it has spawned some student-run businesses.

Manticore Technology offers hosted Web-traffic analysis for businesses with fewer than 500 employees. It is an underserved market that will spend $1.5 billion for such services in 2005, versus about $11 million this year, predicted Clint Scott, the company's chief operating officer when he's not working on finishing his MBA.

Leading off the team's 15-minute window presentation, Chief Executive Nicholas Walker -- another MBA students, as are all in Manticore's team -- rapidly explained that Manticore's technology has been used to track an increase in visits to a Web site when its Austin customer ran a radio advertisement seeking job applicants. The data includes such information as the language chosen by visitors and which portals they used to get on the Web.

While acknowledging that ability isn't exactly rocket science or proprietary information, the four executives noted that Manticore has attracted customers. And they presented a slide projecting revenues would grow from $5.6 million next year to $70 million in 2005.

The bottom line to the judges: Manticore needs $3.2 million in first-round venture capital to mount a major launch in 2001.

The questions from judges came fast. Joyce Carter of Austin startup NewGistics Inc., questioned the forecast of 10,000 customers in the first year. Executives explained that they would achieve that by partnering with Web-site designers and other companies that serve small businesses.

Another judge, Riss Estes, who competed in Moot Corp. in 1995 and last year co-founded broadband startup ClearCommerce Corp., wondered whether Manticore's plans to spend $175,000 on servers and equipment would be enough. Hardware costs have come down, Walker said, noting a database server was contemplated.

The crash of many Internet stocks since last spring has altered some students' thinking about post MBA life. "It's clearly a negative, but not nearly as negative (to some students) as you would think, particularly if you think how hard it has hit the Nasdaq market," Cadenhead said.