THE EXCHANGE

THE OFFICIAL BUSINESS PUBLICATION OF YESHIVA UNIVERSITY

April 7, 1998 / 11 NISAN 5758 Volume 3 Issue 3

David Neiss, newly elected SSSB student association president

1998 SSSB Election Results

by Exchange Staff

Every year Sy Syms candidates go through a grueling week of cam paigning in order to gain a position on the executive board of the Sy Syms Student Association of both the uptown and midtown campuses of Yeshiva University. This year, being no different, has shown some candidates enter office with ease, while others with difficulty. In the uptown campus of SSSB, the Presidential elections may go down as one of the closest elections in history, with David Neiss ending up victorious, attaining a narrow victory over Menachem Schechter and Jeremy Blank. Said Neiss when asked about his victory, "I'm glad I'll be in a position to help the SSSB student body to my fullest capacity." Joseph Dyckman won the office of Vice President and Joshua Swedarsky captured the office of the Secretary. The position of Treasurer has yet to be determined as one of the candidates was accidentally omitted from the ballots, forcing the Canvassing Committee to postpone that race to a later date.

With regard to the midtown positions, Adina Loberfeld secured the position of President with little effort, as she ran uncontested for that office. Commenting on her vision for next year, she said, "My main focus is to motivate students in joining student clubs, and enjoy their SSSB experience." Marina Klochan assumed the office of the Vice President, with Susan Wohlgelernter entering as Secretary, and Carla Schron attaining the position of Treasurer.

CEOs Lecture at Sy Syms

by Seth Galena

Every Friday morning, as most of the students at Yeshiva University slowly make their way home in preparation for Shabbos, a group of well dressed, slick, Sy Sym's School of Business students are up and moving. These ambitious students are up early and "dressed-for-success." They are rushing to catch the 9:00 AM shuttle that transports them to the Midtown Campus, where they attend the dynamic course, Contemporary Problems in Business.

This is no ordinary class. First of all, it is Co-ed, and is offered to all Sy Syms School of Business students regardless of gender (eligible bachelors only). When attending the class, every student must come dressed in professional business attire. This is in order to keep the course professional, and as Eric Pinkis, SSSB junior, said, "creates a more mature and business oriented environment."

The course itself is a series of lectures given by top professionals in firms ranging from Toyota to Smith Barney. The class meets every Friday, and each week another guest speaker delivers a lecture on a different contemporary problem that may arise in his or her field.

Professor Fred Palumbo, a popular Sy Syms professor of marketing, is the coordinator of this extraordinary and challenging class. Professor Palumbo organizes and draws in most of the executives via his own connections in the business world or through various YU alumni and friends. The Professor demands a lot from his students, especially in terms of preparation. Each student must come to class prepared with a general biography of the weekly lecturer, and information on the industry and company in which the featured professional works. All work is submitted to Professor Palumbo prior to the class.

The Internet is the source that most students use to obtain their information about the speaker, his or her company, and the respective industry.

continued on page 3

Volunteer income Tax Assistance at SSSB

by Isaac Galena

On February 22, The Sy Syms School of Business took a big step forward in strengthening their relationship with the people of the Washington Heights community. The initiation of the Volunteer Income Tax Assistance Program, known as VITA, on the Yeshiva University Campus, has created a "win-win" situation for the students of Sy Syms and the residents of Washington Heights. The VITA program is a national program funded by the Internal Revenue Service that establishes volunteer community tax assistance centers throughout the country. This is the first year the program has been offered on the Yeshiva University campus, and from the perspective of the college and the community it is an unquestionable success.

Much of the program's success is due to the efforts of Harold Willig, SSSB '98. Willig, an accounting major, is the head of the VITA program at YU, serving as both site coordinator and publicity director. Says Willig, "VITA opens up an opportunity for accounting students to get real world experience, while at the same time it provides a much needed service to the community. Although some Sy Syms students have participated in the past, never before has the VITA program been on campus."

The VITA program has certainly helped those who need help the most. Many non-English speaking families, with limited to moderate income, have walked through the doors of Belfer Hall, where the program takes place every Tuesday and Sunday.

Linda Chambers, one of the major VITA marketing heads of the Outreach Board of the Taxpayer Department for the IRS says, "YU is in one of the most important locations. The VITA program is something the people of the Washington Heights community can really take advantage of. " Chambers, who visits each of the 300 VITA sites in the New York City area, praised the University's and students' professionalism, support and participation.

The VITA program works as follows: Community residents enter Belfer Hall bringing any financial documents they posses. A YU volunteer sorts and searches for the relevant documents. "People have brought in the weirdest things," says volunteer Tzvi Shapiro, "Many of the people have little understanding of the tax process." Each volunteer then goes through a series of questions to analyze whether the participant is able to qualify for certain lower income credits. They are presented with a W2 form and the student volunteer fills out the 10-40 tax document for the participant. After each volunteer finishes the tax form, major supervisors review the work for accuracy.

Moshe Blitz has played an intrinsic part to the supervising of the entire program. "Many people do not speak a word of English, so at times we are talking with hand signals and sign language. The people who have come in for help have been extremely overjoyed and ecstatic at the program. For many of them it is their first time actually having any sort of connection with the University and are greatly impressed by the professionalism of the students and of the University."

In order to become a volunteer in VITA, students were required to take courses in Federal and New York State taxes. Each member also had to pass a standardized IRS exam in order to participate. Despite these requirements, the student turnout was overwhelming. Says Chambers, "The students at YU are top notch and very professional." Having over 50 volunteers enabled the shifts to be conveniently chosen and easily scheduled.

The VITA program was highly publicized throughout Washington Heights. Besides the numerous posters and flyers on several store front win-

continued on page 3

Heshy Willig (standing) and VITA supervisor (seated left) assist two others with tax returns.

From the Editor's Desk

Many people have probably speculated as to what the status of this newspaper is after certain rumblings that have occurred along with their respective printed coverage. Support of these claims come in the form of alleged financial trouble and a lack of staff. For anyone who still believes in these rumors, this paper should set things straight. This paper is as much a staple of the Sy Syms experience as any class or club. The show will go on. That being said, I'd like to thank Jeffrey Gamss and Mitchell Rich for their invaluable help in getting this paper out while they were part of the staff. I'd also like to thank the new members of my staff for aiding me in my time of need; your assistance couldn't have come at a better time. In addition, I'd like to finally thank SSSBSA President Simcha Gissinger and the various Deans for their advice and assistance, as well as *The Commentator* for the use of their office and resources.

All this aside, I'd like to take

time to truly address my readers. As this paper has thus far succeeded in its goal of becoming a monthly publication, there is much more that can and has been done. Note that a special election coverage pamphlet was published for the student body to inform them of the SSSB candidates' platforms while production of this paper was being completed. What would be of great value to me would be feedback from you: the students, the alumni, the faculty and the administration. How are we doing? Is there something you would like to see more of? Less of? To me, this is the most important part of my production schedule - the results, the reactions. Feel free to give your comments and reactions, through mail or email at the addresses shown at the end of the paper. Thanks for staying with us, keep reading, and have a happy Passover!

Sincerely,

Yair Oppenheim

Yair Oppenheim
Editor-in-Chief

EXCHANGE

Yair Oppenheim
Editor-in-Chief

Daniel A. Berkowitz
Layout Editor

David Knoll
Joseph Weilgus
Susan Wohlgelernter
Managing Editors

Joshua Swedarsky
Associate Layout Editor

Ilan Scharf
Executive Editor

Shmuel Cahn
David Anziska
Feature Editors

Jeff Taub
Copy Editor

Avi Goldin
Jason Pariser
Associate News Editors

Professor Aaron Brown
Faculty Columnist

Joel Medetsky
Business Manager

Lisa Watson
Ayalla Yasgar
Associate Business Managers

Isaac Galena
Michael Gewirtz
David Rappaport
Jonathan Teitelbaum
Staff Writers

Etan Walls
Photography

Published throughout the year by the Yeshiva College Student Council and the Sy Syms School of Business Student Association. The views expressed in these columns are of the writers alone and do not reflect the opinions of The Exchange, the student body, faculty, or the administration of Yeshiva University.

500 West 185th Street
New York, NY 10033

AMERICAN MARKETING ASSOCIATION

The Exchange is brought to you with the cooperation of the American Marketing Association Chapter at Yeshiva University.

Dean's Message

This year is turning out to be the most exciting year in Sy Syms School of Business history. There are many areas we can be proud of including record enrollments, curriculum additions, our placement record and our dedicated faculty and staff. However, this year in particular, we can be especially proud of our student body.

Our students this year were particularly active in making the school a better place. Student leaders of various Sy Syms School of Business organizations helped generate the excitement and the students themselves helped make this a banner year. When I think of all the effort students expended in developing the Senior Awards Dinner, I marvel at their initiative and leadership ability.

As the year draws to a close, I want to particularly congratulate our seniors who will be graduating shortly. These young men and women will now join the ranks of a particular exclusive organization, the Sy Syms School of Business Alumni Association. I am certain that as they make their way in the world, they will fulfill the mission of the Sy Syms School of Business as leaders in business, industry, society and the Jewish community.

Harold Nierenberg, Ph.D.
Dean

The Exchange would like to wish all sudents, faculty, and alumni a happy and Kosher Pesach!!!

SSSB Presidents' Messages

It is with great pleasure that I write this letter for yet another edition of The Exchange. I'd like to express much gratitude to Yair Oppenheim for his hard work in publishing this periodical throughout the academic year.

The past few weeks have seen an abundance of activity on campus. We have hosted speakers in the fields of corporate finance, investment banking, institutional sales, credit derivatives research, management consulting, advertising, retail, direct marketing and public relations. The Investment Club has met once again, and the Joint Business Society has successfully opened and operated Morg Mart. Among the plans for after Pesach are the Sy Syms Dinner, to be held on Monday, May 4th, and possibly some more recreational activities for students to enjoy.

As the year slowly winds down, I emphatically urge all of you to look back on this past academic year and think of all of the things that you accomplished, but also of all of the opportunities that you allowed to pass you by. The chance to study in a world renowned university and simultaneously learn from some of the most highly regarded Rabbanim that are alive today is one that you will probably never have again. Take full advantage of it while you can.

Sincerely,
Simcha Gissinger
President, SSSB

On April 1, 1998, the Sy Syms School of Business-Midtown elections for the upcoming school year were held and I am quite upset by them. The elections include the Executive Board as well as the offices for the clubs and societies. Only two offices were contested on the executive board, and with the clubs, no candidates ran opposed and there were even some offices which had no candidates at all.

Do not get me wrong, I am confident that they will do a superb job. What I am bothered by is the lack of interest among the student body. There is so much to gain from getting involved in school. One reason that comes first to everyone's mind is that getting involved or holding an office on the student council "looks good on your resume." Let me tell you, from my own experiences, that there is a lot to say for this. Many of us may not be thinking long term right now, but all SSSB students eventually go on job interviews and experience weigh just as heavily, probably even more, than one's GPA. There are other great reasons to get involved. It enhances your whole college experience, it gives you more to do than just your school work and it helps you meet new people. SSSB is a relatively small school, but we have a large percentage of capable students which should give us an advantage. Although it is too late to join the upcoming Sy Syms School of Business Student Council, keep in mind that there are plenty of areas to involve oneself in SSSB. Keep your eyes open, take hold of the great opportunities that are right in front of you and by next year's elections, I hope to see more than one person running for each office on the election ballot.

Sincerely,
Cheri Ochs
President, SSSB

Sachs Delivers Lecture on World Economies

by Kenneth Sicklick

Dr. Jeffrey D. Sachs, director of the Harvard Institute for International Development, spoke on the topic "Fostering the Rule of Law in Transition Economies."

Dr. Sachs has been called arguably the most important economist in the world by the New York Times. He has served as an economic advisor to numerous governments all over the world. He serves as co-chairman of the Advisory Board of the Global Competitiveness Report, and has been a consultant to the IMF, the Organization for Economic Co-operation and Development, and the UN Development Program. While advising the president of Bolivia, Dr. Sachs helped reduce that country's inflation rate from 40,000% to 10%. At the same time he advised the governments of Argentina, Brazil, Ecuador, and Venezuela on financial reform, and Poland's Solidarity movement on radical economic transformation.

Dr. Sachs said that a transition economy exists in a country that is moving from one economic framework to another, such as Russia's move away from communism. Other examples of transition economies can be found in Poland and the Czech Republic. The theory, according to Dr. Sachs, is that the move from communism to a market economy will be significantly smoother and quicker in countries that are governed by the rule of law.

What exactly is this rule of law? It requires a framework for politics and power such as a constitution that is created with laws clearly and undeniably protecting individuals' basic freedoms. One such freedom, in fact, the most important one with regards to becoming a market economy, is the individual's freedom to write contracts. Rule of law also requires that citizens of the country obey the country's laws and that the police and state governments enforce the laws.

Although it is not clear exactly how a country can best achieve a rule of law, a study of what prevents its existence should certainly shed some light on the situation. If a country has abundant natural resources, it can have a hard time achieving rule of law. Quite simply, the country's leaders, in an attempt to retain control over the resource, whether it be gas or gold, will keep their control by preventing a market economy from taking hold. A country's geography might also prevent an efficient transition into a market economy. Poland, a country with access to water trade-routes, is making great strides in its economic development. Such is the case with many countries that have coastal economies. In stark contrast to Poland, Russia is having a very hard time economically. This can be attributed to Russia's geographic location, that is to the fact that Russia abuts no major waterways. And, finally, private contracting also seems to accelerate a transition economy's shift towards capitalism.

Director of the Harvard Institute for International Development, Jeffrey Sachs

Now, how do we measure a country's rule of law? This, too, is relatively easy. The less corruption in a country, the greater the rule of law. Our goal is to increase the rule of law, because statistical analysis has shown that the greater the rule of law, the greater the growth in GDP. Corruption is measured, according to several Harvard business professors, with the answers to some key questions: Does the country have a lot of bribing? Is there a lot of tax evasion? Is organized crime rampant? Not coincidentally, Russia, statistically, has the second worst numbers in all three of these areas, and it is suffering setback after setback in its economic development and growth. Corruption can also be measured can also be measured by looking at the size of a country's black market. A survey of businessmen can determine how much income they hide. Surely, though, some businessmen will lie, so we look to a better measure of black markets. Electricity is a measure of economic activity. When a country has enormous use of electricity and relatively low market economic activity, there is certainly a lot of black market activity. In 1989, Russia's underground markets contributed 15% of Russia's economic activity. In 1994, that number shot up to 45%. This is yet another stumbling block that Russia has been dealing with.

According to Sachs, and as proven by numerous examples, the rule of law should be fostered in order to facilitate the shift of economic policy from communism to capitalism.

Friday Business Lecture

continued from front page

Professor Palumbo encourages using the "information superhighway" as well as print and trade magazines, which are the most current sources of information.

The questions that each student must prepare dealing with problems that are currently found in the speaker's field of business are the focal point of the class. After the general lecture Professor Palumbo opens the microphone to the students for any questions or comments they may want the speaker to discuss. This is where the professional can get specific by displaying his knowledge and giving the students a real, up-close and personal look at the inside of his or her field. The students truly witness the composure, experience, eloquence, and hard work that each of these executives worked so diligently to achieve. The lecturers spell out what it takes to make it in a particular business arena.

The guest lecturer is awarded a certificate of recognition at the conclusion of their speech on behalf of the entire class, in appreciation for taking out time from their busy schedule to come speak to the class. After every lecture, this ambitious group of students regularly prevail upon the speaker to answer even more individual and specific questions about expenses, tips, and applications, that they may have not wanted to ask during the question session. However, the thought that may enter most peoples' minds is that maybe the featured speaker is in need of a new employee. The executives are willing and generous to answer all questions and have been known to linger for over an hour just chatting with the students.

The lecturers come from a variety of businesses, which gives the class a more diverse and broad view of management in its numerous forms and responsibilites. The presentation format of the guest lecturers varies with use of videos, projected slide shows, hand outs and even sample products.

The list of featured speakers in this program includes an all-star cast in every field of business. Alexandra Lebenthal, CEO of Lebenthal & Co., spoke to the Generation X'ers about the hard work and effort that is needed to achieve success. Takeshi Nagaya from Toyota gave a foreign point of view, although he was raised in America, about the difficulties in dealing with cultural change. Richard Goldstein illustrated the global expansion of Unilever and its enormous management structure. Jacob Goldman, of Xerox, surprised everyone, despite his age, with his clever wit and humor as he discussed the decision making process of upper management. The lecturers made sure to clearly define their role in their respective companies, as well as their relation to other sectors of management, to help the students get a clear picture of the work environment.

The work is hard, and the class meets on Friday, but the benefits are astounding. Not only do these future entrepreneurs gain advice from business leaders, but they also get a feel of being around experts, and a taste of what it takes to become a success in today's corporate America

Making connections in the business world is always a good start, and what better way to meet key players than by going to class.

The class is usually one of the first to get locked out on registration day, so if you are interested in a dynamic and unusual opportunity, do not pass up this Sy Sym's class. Eric Pinkis, a SSSB junior, even commented, "It is a pleasure going to class...even on Friday."

Syms Students Assist Others During Tax Time

continued from front page

dows, a 600 piece mailing was sent to the community board and the program was written up in the New York One Community Calendar. Despite the large marketing campaign, the VITA program had a relatively small turnout from the community. "I expect in the next few years the turnout to be much higher," says Willig. Chambers says, "The strong need for the VITA program in the community will eventually lead to the YU site being the busiest contributor to the VITA program."

For the first year in its existence VITA in YU has certainly provided the Sy Syms School of Business with two extremely important and valuable assets. First, it has developed a stronger bond between the students and the community that surrounds them. Second, it has provided a location for students to gain hands-on experience and practical work without taking the dreaded iron horse downtown. "VITA certainly gives you the tax experience that any accounting firm is looking for," says Tzvi Shapiro. Moshe Blitz says, " The students have worked exceptionally well with the community members and with each other. Programs like VITA are the future way Sy Syms can better establish itself in the Washington Heights community and in the business world."

DILUTED SHARES - FASB'S NEW RULE

by Joey London

In *The Beginning*, God created Heaven, Earth and the FASB. And, because so much work was needed above and below The Avenue of Amsterdam, God created Adam, a 20-year old sophomore at Yeshiva University's Sy Syms School of Business.

Now Adam, like most other people born in the late 1970's, was interested in learning how to make money as quickly and as easily as possible. Weaned on the nursery rhymes of "The Donald," Adam aspired to be as rich and successful as He. But Adam did not want to wait until his graduation in another two years. Adam knew that he must devise a plan to make lots of money while he was still a sophomore in college. An ambitious person, Adam stayed up for many days and many nights pondering this dilemma.

The Angels on High knew that Adam had not finished all of his Sy Syms finance courses and therefore did not know of all the possible ways to make money. Adam had heard that many investors put their money in the stock market, but he feared the potential risks of losing all his birthday money and the money left on his CAF card. Adam had only saved $1,000 from his past three birthdays; he could only buy a couple of shares of stock anyway. But Adam's eyes saw big dollar signs. He could not settle for just a little profit. If he was going to make enough money for the life he desired, he needed to make tons of money.

Late one night, while Adam was sleeping in front of his lap-top computer terminal, he had a dream in which God appeared on-line. God cyber-spoke to Adam and said, "I know a way you can make lots of money without doing too much work." Realizing that this was a-once-in-a-lifetime opportunity, Adam waited patiently as God told over His plan. God said to him, "I want you to start a computer company. My only rule is that you must be completely honest." God continued, explaining to him that he was allowed to make as much money as he wanted, but when he reported the net income figure on the income statement, he must not deviate one-hundredth of a cent or he would be punished severely!

While sprawled out on Yeshiva University's spacious grass campus near the River Hudson one day, Adam contemplated all the details of his soon-to-be company. Suddenly, a snake appeared from a hole in the ground and jumped out at Adam. At first Adam was about to scream for YU Security, but the snake called, "I know how you can make lots of money without deviating one-hundredth of a cent from the reported net income." This got Adam's attention and he decided to hold off on calling security.

The snake's idea was to set up a company and issue stock, just like most other companies. But there would be one difference, the snake told Adam. He would draw up 10,000 shares of stock but only sell 5,000. The snake advised Adam to reserve for himself the right to buy the remaining 5,000 shares for only $1 a share. He would not have to register these 5,000 shares, and could save them for a later time when the stock price would rise. Adam could then pull out these shares and make a great profit by selling them.

While this idea was interesting, it was only quasi-legal and could pose problems for Adam later on. So the snake informed Adam that there was even a better plan, but it would take a lot of work. Seeing dollar signs, Adam listened to every word that the snake told him.

Since Adam would only be required to report the shares of stock that were in the community's hands, and not have to include those shares of stock form the stock option plan, he could relay to shareholders that their earning per share(EPS) was higher. Instead of spreading the company's earnings over all the shares, they would only be divided by the public shares. This would make investors want to put money into the company, driving the stock price up and making Adam's share even higher.

Adam was content with this plan. What could be immoral or unethical about having a high EPS? And in accordance with God's wishes, the net income figure would not change. Adam was so confident in the snake's plan that he decided to take a short nap before his next class. But while Adam was sleeping, God appeared to Adam in a dream and said that he should be wary of carrying out the snake's plan.

God informed Adam that one of God's messengers, the FASB, would disallow this practice in FASB Statement 128. This statement would be effective for periods ending December 15, 1997. Adam responded, " Who are these people and why do they want to stop this practice." God replied, "They are known as FASB, pronounced as it is read. The FASB is an independent creature of the private sector and is financially supported by various professional accounting associations (such as the leading organization of auditors, the American Institute pf Certified Public Accountants, also known as the AICPA). The FASB's rulings on GAAP are known as FASB Statements. The FASB was established in 1973 as the replacement for the APB(Accounting Principles Board). The APB consisted of a group of eighteen accountants who worked part time and issued a series of thirty-one APB Opinions during 1962 to 1973."

"But", Adam asked, "What power does FASB have, and what is this FASB Statement 128 about?" God replied that FASB has been delegated ruling-power by the SEC(Securites and Exchange Commision), which in turn has been delegated power by the U.S. Congress. God further explained to Adam that Statement 128 was to establish standards for computing and presenting earnings per share(EPS). This Statement simplifies the standards for computing earnings per share, which had been previously found in APB Opinion 15, Earning Per Share, and makes them comparable to international EPS standards. The provisions in the Statemennt are substantially the same as those in International Accounting Standard 33, Earnings Per Share, recently issued by the International Acounting Standards Committee.

Statement 128 also replaces the presentation of primary EPS with a presentation of basic EPS. It furthermore requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures. Primary EPS is calculated by taking the earnings available and dividing by the average number of shares that would have been outstanding if warrants and convertibles that are likely to be converted in the near future had actually been exercised or converted. (A warrant is an option issued by a company which gives the holder the right to buy a stated number of shares of the company's stock at a particular price. A convertible is a security, usually a bond or preferred sock that is exchangeable at the option of the holder of the common stock of the issuing firm).

Basic EPS excludes dilution -- a reduction in earnings per share that arises from some changes among shareholders' potential interests -- and is computed by dividing income available to common stock holders by the weighted average number of common shares outstanding for the period. Contrary to basic EPS, Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

After hearing that the FASB would change the law for 1998 financial statements, Adam decided to scratch the snake's plan. Adam seized the snake that would have tempted him to violate the FASB's new rule and struck the snake against the computer terminal screen. As the snake broke into tiny pieces, Adam noted a strange formula on the terminal screen. It was the FORMULA - the secret elixir to save the world's computers from destruction at the stroke of the coming Millennium. Adam would be rich. Adam would be able to afford his own lawyers, his own lobbyists and his own public relations firm. He would no longer need to deal with diluted shares. He would finally be able to marry his girlfriend Eve, and live in any of the Five Towns that he wanted.

How Michael Jackson Ruined the Music Industry

by David Rappaport

Wild theories abound in the music industry about why the quality of records released has deteriorated so dramatically. Though my theory about this matter is not well documented I bring substantial proof that Michael Jackson is to blame for the current state of music quality or lack thereof.

A record company is like an individual investor. The record company must attempt to create a portfolio of artists that will sell at a constant growth rate. They are like a mutual fund of music, if you will. Until the 1970's, record companies would sign acts that they believed would sell 500,000 copies (gold record) and were extremely satisfied with a such a figure. The company would sign 50 of the acts in the hope of selling 25 million copies and by marketing these groups in an easy manner, they would create long term demand for such artists. This is why the Rolling Stones are still going strong. Any preliminary course in marketing will tell you that information overload does nothing but turn off the consumer. This is something the record companies knew but forgot when Michael Jackson released *Thriller*. In finance terms, what happened was that Mr. Jackson convinced senior citizen investors that it was time to play the market and begin to hedge bets that could be construed as extremely risky. Allowing artists to grow on their own without immediately forcing them on the public allowed the artist to grow and mature into solid performers before becoming international superstars only 5 albums into their careers.

Michael Jackson sold 25 million copies of *Thriller* when it was first released. The industry reacted by questioning their current practices. They thought to themselves "Why should we market 50 different groups that sell 500,000 records each and have to appeal to all the different market segments when all we really need to do is find a 25 million seller or two artists who can sell 25 million copies by themselves. It seems like record companies began to listen to their marketing departments in the hopes of cutting down marketing costs at the expense of the artist. Additionally, there aren't as many legal battles to take part in and accounting becomes that much easier. As a result of this short term investing we have gained nothing but The Spice Girls, No Doubt, and Bush. These are all artists who will not last because they are heard way too much. It's like hearing Will Smith's "*Gettin' Jiggy Wit It*" on MTV. First you see the video on its regular heavy rotation during the day. Then you see it on the Top 10 Jams of the Day and then you see it again on request and again on the Top 10 of the day. There's only so much that anyone can get *Jiggy Wit It*, know what I'm saying? Why is it that no one even remembers Hootie and the Blowfish? Pearl Jam will never sell as many records as they did for their first album because we saw too much of the Seattle scene during the grungemania of 1993 and 1994. Remember that movie Singles? I try to forget.

This practice of short term investing does nothing but damage the artists and create music columns entitled " Remember them..?" An artist doesn't have much of a chance of surviving 3 albums in today's current market. The effects have already been seen on many labels that have gone bankrupt or have had to reconfigure in order to somehow regain lost glory. The only way to solve this problem is to search for the long-term investments once more. Unfortunately, not many exist because the artists are all price takers and not price makers. What this means is that artists change with the desires of the record companies in the sense that future artists are influenced by present day artists.

When searching for a suitable station on your radio dial remember that it is quite likely you won't hear anything good. This is not because the artists are horrendous, but because the record companies have made it this way. Even a Yeshiva College student will tell you it is foolish to put all your money on one stock. Remember to diversify your investments as well as your cultural experiences.

THE ASIAN COLLAPSE

It's Probably Not As Bad As You Think It Is!

by Ilan D. Scharf

The recent turmoil in the Asian market was a very alarming incident. Its effects on the US economy are an important matter to consider. Will the collapse of Asia's financial system spread to the US and adversely affect the recent growth we've been experiencing?

The Asian market experienced problems for a number of reasons. The first is that the Asian banks were using unsound lending principles. They were making long term loans on money that they themselves had only borrowed short term. When the time came for them to repay their short term loans, they had no funds with which to do so. The second problem was that the banks were borrowing dollars and relying on the strength of their own currencies to repay the loans. A strong dollar, combined with the collapse of propped up Asian currencies, has made it very costly to repay dollar loans with local Asian currencies, thereby making the banks unable to repay their debts. The third problem was that the banks were lending money to institutions that were bad credit risks. Therefore when the borrowers did not repay their loans the banks could not meet their obligations.

To truly understand the underlying roots for the Asian market's troubles we first must understand the reasons why the Asian financial institutions were taking such enormous risks. The main problem was that foreign and Asian institutions felt that the Asian governments would bail them out in the case of a market collapse. This presumed safety net led to the excesses that the banks took in Asia. Depositors, shareholders, and lenders to Asian banks all assumed that the Asian governments would pick up the tab if the banks failed. Furthermore there is a serious epidemic of cronyism in the Asian political systems. Many of the leaders of the developing Asian markets are more interested in lining their own pockets, rather than in ensuring that their ventures rest on sound financial backing. This problem is well illustrated by President Suharto's regime in Indonesia. That government's fiscal policy appears to have been designed to reward Suharto's relatives and close supporters. The problems include tax incentives for his son's national car project and government backing for risky ventures undertaken by his daughter. In order to solve this problem, the IMF has forced Suharto to abandon many of his frivolous and risky projects in exchange for a $47 billion bailout.

Another problem was that banks in developed countries tend to throw money at developing countries with rapidly growing economies. The borrowers take all that they can until their currencies collapse, and are then swamped with a foreign currency debt that they can't repay. For example, Japanese banks could raise funds at home for 1% interest, and then lend to Thai or Malaysian banks for 4% or 5%. Those banks would then lend the money at 7% or 8% to a risky project. When a large number of risky projects failed, the banks could not meet the obligations they had to their creditors all the way up the line, so that the repercussions were felt all the way up to the original bank.

The effects of the collapse of Asian banks is extremely devastating to the Asian economy, especially in South Korea, Indonesia, the Philippines, Malaysia, and Thailand. The economies of Japan, China, and Hong Kong were affected to a lesser degree. The most distressing consequence is that the region is now in the midst of an economic recession, which if left unchecked could result in a depression. Layoffs in the region are up this year, with 500,000 occurring in Indonesia alone. A contraction of 4% to 8% is predicted for the region in 1998, reversing a long trend of robust growth. Furthermore, double digit inflation continues to plague the region, further hampering growth efforts. The credit squeeze shows no sign of easing soon, which means that most businesses and banks cannot get the funds they need to remedy their problems.

The traditional Asian solution of exporting their way out of trouble has proved unmanageable for the Asian economies in the wake of the recent crisis. Conventional wisdom dictates that if the local Asian currencies are weak then it is advantageous for them to export in exchange for foreign currency. Yet, the Asian economies are simply unable to stimulate exports for a number of reasons. The most obvious is that there is very little capital with which to fuel growth or stimulate manufacturing. Foreign capital injections are not forthcoming due to foreign investors newfound caution in lending to insolvent or risky Asian banks. Furthermore, there is very little liquidity with which to invest in production. Second, regional intra-Asian trade accounts for a large portion of the Asian market's exports and the regional slump has slowed down most of the economies in Asia leaving no Asian market with the capital to absorb a sharp increase in intra-Asian imports. The most significant barrier to an Asian-led recovery is that the Japanese market, traditionally the bulwark of Asian economy, is stagnant at the moment, with zero growth projected for 1998. The collapse of many of the Asian banks has contributed to the collapse of a number of Japanese institutions, and Japan is now unable to finance a massive bailout of the faltering region.

The difficulties facing the Japanese economy are monumental. In fact Japan's economy is so starved for capital that foreign firms are being encouraged to enter the Japanese economy in unprecedented numbers. Direct foreign investment in a large stake of Japanese companies increased by 70% from 1996 to 1997. Foreign financial firms are also gaining a new foothold in the Japanese economy. For example, Merril Lynch is taking over 30 branches of the defunct Yamaichi Securities in order to tap into Japan's $9.3 billion personal saving pool. Foreign investors are also buying risky debt that is secured by real estate in an effort to enter the Japanese real estate market. If the price of real estate rises they may foreclose on the loans or resell the debt. According to Ichiro Shirakawa, a professor at Ritsumeikan University "We really need foreign capital to get our economy going."

US banks were not as debilitated by the collapse of the Asian market as Japanese or European banks because of the lessons learned by investing in developing economies in South America during the 1980's. The US banks learned to avoid massive loans to voluble young markets during the debt crisis experienced in Latin America during the '80's. American banks only had $23.8 billion invested in the region, whereas the Japanese banks had $97.2 billion invested at the start of the crisis last summer. The disaster has assisted in causing 75% of Japanese banks to be insoluble, which resulted in a $228 billion domestic bank bailout program by the Japanese government. The German and French banks have also invested more than the US banks in the region in a desperate bid for growth stemming from stagnant markets back home.

The American banks were excluded from serious problems because of their advanced risk management systems. Red lights started flashing regarding the region's financial instability as early as the first quarter of 1997. The other foreign banks ignored the risks inherent in overexposure to a single region and the serious threat of a local currency devaluation.

The local populations began moving their savings from high risk local banks to those in the U.S. and Hong Kong, more secure foreign banks. For example, in Malaysia between October and December 1997, $5.9 billion was transferred by investors from domestic to foreign banks. The reason for the switch are simple. The foreign banks have newer technology, and provide more modern and sophisticated services. The most important feature of foreign banks is their security. In fact, the foreign banks have been infused with so much cash that they literally don't know what to do with it. The crisis has benefited US banks by increasing their influence and power in the region. This is due to their more conservative lending practices and aforementioned highly sophisticated risk management systems.

The Asian collapse is also not affecting other areas of American industry as seriously as feared at the start of the crisis. Senior executives of US corporations are as optimistic today about the American economy as they were before the crisis began. The main reason for this is that the amount of goods that the US exports directly to Asia are not as large as most people assume they are. The US economy generally imports cheap products from Asia for domestic consumption. The fact is that the Asian crisis has served to drive down the cost of production and raw materials in Asia. When the cheaper Asian market is combined with the still strong dollar, the result is that American purchasing power is stronger in Asia than before the crisis.

The damage to American industry is that the immediate future will see slower growth in the developing Asian economies. The Asian recession has hurt a number of firms that have a large exposure in Asia, but the strong stock market has not reflected the full extent of that problem due to strong domestic sales in the US. The truth is that although a few companies may have been inordinately winded, especially telecommunications and other hi-tech, high growth industries, the overall effects of the Asian collapse on the US are considered minimal and sometimes even beneficial.

Commodities Trading

continued from page 8

tures trading account, you could trade one S&P 500 stock index futures contract. If you were going to buy the equivalent amount of common stocks, you would currently need about $350,000, thirty-five times as much. Let's say you decided that the stock market was going to go up. You could invest $350,000 and buy individual stocks equivalent to the S&P index, or you could buy one S&P futures contract. Buying a futures contract is the same as betting that the S&P index will go up.

If you had made your move on the first trading day of September 1996 and held your position for two weeks, your common stock position would have been worth about $20,000 more than when you bought it, a gain of about six percent. Not bad for only two weeks! If you had taken the futures route, however, you would have made the same $20,000, which would have been a 200 percent gain on the $10,000 margin required in your futures trading account.

That is an actual example of the tremendous returns you can earn in a short period of time trading futures. Of course, you can lose money just as fast if you trade in the wrong direction. Suppose you had thought that the stock market was about to go down and you had sold a futures contract instead of buying one. If you had valiantly held it for two weeks, you would have lost $20,000, a 200 percent loss. That's a good example of why you must exit your trades quickly if they start to move against you.

Another advantage of futures trading is much lower relative commissions. Your commission on the $20,000 futures trading profit would have been only about $30 to $50. Commissions on individual stocks are typically as much as one percent for both buying and selling. That could have been $7,000 to buy and sell a basket of stocks worth $350,000.

While profits can be large in commodity trading, it is not easy to make consistently correct decisions about what and when to buy and sell. Commodity speculation offers an important advantage over such illiquid vehicles as real estate and collectibles. The balance in your account is always available. If you maintain sufficient margin, you can even spend your current profit on a trade without closing out the position. With stocks, bonds and real estate, you can't spend your gains until you actually sell the investment.

In futures trading, it is as easy to sell (also referred to as going short) as it is to buy (also referred to as going long). By choosing correctly, you can make money whether prices go up or down. Therefore, trading a diversified portfolio of futures markets offers the opportunity to profit from any potential economic scenario. Regardless of whether we have inflation or deflation, boom or depression, hurricanes, droughts, famines or freezes, there is always the potential for profit trading commodities.

ISRAEL REPORT

Venture Capital in Israel

by Michael Gewirtz

What does a country do when its venture capital scene is still in the developmental stages, and many of its innovative and imaginative ideas are falling by the wayside? Let the government establish a strong venture industry. Such was the plan of the Israeli Government when they founded Yozma Venture Capital Ltd., in January of 1992.

When Yozma began operations in June 1993, the founders set down several goals and objectives which they hoped could be reached. Included among those goals was, "To act as a catalyst for international investments in Israel, and to stimulate the development of a professionaly managed, private sector, venture capital industry in Israel." Additionally, Yozma looked "to create bilateral relations with investors in Israeli technologies, to locate strategic partners for Israeli projects, to attract international corporations to launch subsidiaries in Israel, and to create a network of business contacts for the optimization of Israeli companies."

With the vision of reaching these goals, Yozma adopted a two-pronged strategy that called for direct investments with strategic partners, and subsidiary funds to be invested together with well established venture capital firms and major international corporations.

When Yozma searches for investment opportunities to directly invest in, the company seeks out "Israeli high-tech ventures that are targeting the international market." Among the criteria for investment are a strategic partner, high returns, and several other requirements that are listed in the Yozma charter. A strategic partner is "an organization that can provide the venture with added value beyond a financial investment," such as "marketing, technology, or manufacturing." An example of a strategic partner can be "a large customer that is familiart with the market, a leading investor that is well established in the business" or, "a technological partner that finds the company's technology attractive and would like to secure access to the technology by partial investment." Included in Yozma's direct investment portfolio are companies like Ligature Ltd., who develop optical character recognition technology, MainControl Inc., a company that markets a product "that will allow users to track the purchases of hardware and software from the beginning of a workstation's life cycle to the end," and Emultek, a firm which develops techologies such as Rapid, that are "prototyping and simulating tools for shortening the development cycle of embedded electronic systems."

In addition to numerous direct investments, Yozma has established nine venture capital funds with a total capitalization exceeding $180 million. In total, the group has invested in over seventy-five different ventures, many of which "are well on their way to becoming front runners in their field," and have already realized returns . The concentration of the funds' portfolios is in communications, medical instrumentation, and computer hardware and software.

With the Government of Israel currently privatizing many businesses, much of Yozma's equity is being unloaded in the form of shares of stock sold to investors in the private sector.

Although Yozma has only been in existence for six years, it has already succeeded in many of its goals, most importantly the development of a strong and growing venture capital industry in Israel.

Mutual Fund Report

by Yehuda Wolf

Everyone has heard of mutual funds, *but not many people actually know* what they are. For those of you who are hesitant to ask, let me tell you. A mutual fund is a company that combines, or pools, investors' monies to purchase securities. The mutual fund should ideally provide diversification to reduce risk and economies of scale to reduce commissions, while enabling you to purchase securities that you know have been researched. This allows for far greater convenience than simply purchasing a number of stocks individually. While this sounds really good, before you rush out and purchase shares in your friendly neighborhood mutual fund, let me warn you that while it has its advantages, it also has its disadvantages. First, let's look at how mutual funds work, how they are priced, and whether or not a mutual fund is for you.

To find out information about a particular mutual fund one can simply call up the fund company and ask for a prospectus. It contains information such as what the fund invests in, the fund's past performance, who manages it, its fees, and many other exciting pieces of information. If that isn't enough, there is also an "SAI," Statement of Additional Information, which the fund must make available to prospective investors. If you are really tenacious you can call the Securities & Exchange Commission, since all mutual funds must register with them.

Buying into mutual funds is similar to buying stock in a company. Let's suppose that Sy Syms starts a fund called SSSB. Jack and Jill each decide to invest $1000 in shares of SSSB. If they are the only two investors, the net assets of the fund are now $2000. Let's assume that the initial price per share is $10; there are now 200 shares outstanding (with Jack and Jill each owning 100 shares). SSSB now invests that $2000 in accordance with the policies stated in the prospectus. Since they are prudent investors, Jack and Jill have thoroughly researched both the mutual fund and the people managing it. The wonderful managers of SSSB have invested in 10 stocks which have given them an overall return of 50%. That would make the new net assets $3000 (or $15 per share). At the end of the day, all of the assets are added up and all of the liabilities are deducted to figure out the new net assets. This figure is then divided by the number of shares outstanding to compute the net asset value (NAV), or price per share. As the value of the investments rise, so does the fund's NAV. Jack and Jill now have two basic options: keeping their profits invested in the fund, or taking their profits out of the fund. If they decide to take their profits out of the fund, Jack and Jill will have earned capital gains of $500 each, minus the commissions, fees, and expenses of the fund.

"What are fees and expenses?" you might ask. First, there are two types of funds: load funds and no-load funds. A load is a sales charge; some funds have one, and some funds don't. For those funds that do have a sales charge, it is added to or subtracted from the price of the fund's shares. So the question to be asked, "Why would I buy a load fund?" The answer is that load funds sometimes provide a broker's service and advice, while no-load funds do not provide any of these services. This does not mean that load funds are better. And even no-load funds will still charge a management fee and take reimbursement for operating expenses. There are two types of load funds: front-end and back-end. Front-end loads are paid when buying a fund; by law they can be no more than 8.5%. Back-end loads are paid when selling a fund; they usually start at 5% or 6% the first year after investing and get smaller each subsequent year. However, back-end load funs often have higher 12b-1 fees, used to pay commissions and marketing expenses, than do front-end load funds. The 12b-1 fee is generally between 0.25% and 1% annually, and can make back-end funds more expensive over the long term. Exact details of all the fees charged are shown in the fee table near the beginning of the prospectus.

Mutual funds are generally geared towards three types of investments: money markets, bonds, and stocks. Money market funds invest in short-term bonds, which have a low degree of risk and therefore offer a lower return than that of the other types of funds. The main objectives are the preservation of capital and liquidity. Bond, or income, funds are not concerned with growth, and have the sole objective of producing a steady stream of income. Stocks, or growth, funds are obviously seeking the growth that stocks provide. There are also different degrees of risk for each group of funds, ranging from conservative money market funds to high-risk stock funds. A fourth type of fund is the balanced fund, which is a mixture of stocks and bonds formulated to reduce risk while still receiving a respectable return.

Not all mutual funds allow you to buy and sell shares at will. An open-end fund allows you to purchase and redeem shares on a daily basis. You can add money, take out money, reinvest profits, take out profits, as you wish. A closed-end fund, however, has restrictions on buying and selling, making it comparable to a stock with its fixed number of shares.

There are so many different funds in existence that to even give a summary of them would require a whole new issue of the Exchange. Just to illustrate this, there are funds that invest only in emerging markets, medical companies, technology companies, mortgage bonds, municipal bonds, Asian companies, etc. The list could go on forever.

Now here is what you have been waiting for: should you invest in mutual funds? Although it is preferable to personally speak to a financial advisor, I will tell you that I would not invest in mutual funds. While mutual funds provide diversification and convenience, they are quite restricted by the SEC as to what they can and cannot invest in. Take the Asian markets, for example. If you have been reading the Journal, and I'm sure that as a dedicated Sy Syms student you have been reading it daily, you have noticed that most of Southeast Asia is suffering from severe economic and monetary problems. If you had invested in an Asian fund last semester, you would have lost some serious money. Since the fund would probably be restricted to Asia, it would not be able to change its focus and would be forced to stick it out in Asia. Another disadvantage of mutual funds is that often most funds under-perform the market. The safest bet is to find an index fund that mirrors a known market index, as these have been doing quite well lately. Even if you do find a fund that has been consistently outperforming the market, you must not forget the cardinal rule of mutual funds: Past performance is no guarantee of future results. Many things can change; suddenly you might find yourself losing money. Mutual funds can be an excellent investment, but only if you choose the right one. And with so many funds out there, this will be quite difficult.

My advice is to invest in the Dow Jones Industrial stocks. While this may not give you spectacular results, if you do your research and find some solid blue-chip stocks to invest in, you should see steady growth with minimal risk. If you do follow my advice, make sure to do a DRIP. A DRIP is a dividend reinvestment program. Besides just buying the stock, it automatically invests dividends in additional shares. If you are not an expert and just want a safe investment with good returns, this is the way to go. For more information on DRIPs, visit the Motely Fool website, at www.fool.com.

Joe Camel: Subliminal Hero

by P'nina Weinburg

Picture this: a ten-year old stops to look at a billboard while walking home from school. The featured character of the advertisement is Joe Camel - the suave cartoon character and shameless nicotine peddler - sporting sleek sunglasses and a cigarette dangling from his dromedary lips. His long, drooping nose might suggest a certain sexual reference. "Joe" is easily recognized by millions of adolescent children around the world. His use is limited to manipulating the masses by utilizing the two most potent features in advertising today - sexuality and "coolness" - to hawk his brand to the unsuspecting consumer. Parents, educators and concerned citizens beware: America's favorite camel is not the only one engaging in this reprehensible practice. Scores of other companies, whether blue chip or black market, use subtle sexual stimulation to entice potential customers.

Subliminal advertising has been a time-honored tradition in the less than honorable history of the advertising industry. The advent of television in the late 1940's brought a new medium for shrewd advertising executives to practice their necromancy. For nearly four decades now, Madison Avenue has been unable to refrain from abusing the trust of consumers. In 1957, a researcher announced that after he had flashed the phrases "eat popcorn" and "drink Coca-Cola" every 1/300th of a second, people subconsciously bought more popcorn and soda than usual. Once word got around that companies were using subliminal messages in their advertisements, state governments and congress began to regulate the techniques that advertisers could employ in their marketing adventures. Numerous laws were passed in the hope of curtailing subliminal advertisements.

Today, there is a new, less obvious form of subliminal advertising that exists. Subliminal perception - the perception coming from stimuli too weak to be noticed, yet strong enough to influence one's behavior - still plays a pivotal role in advertising campaigns. Although outright subliminal conditioning is not used, a devious offshoot of this technique can be seen on television and billboards. From 'racy' images in liquor ads to the inscription of the word "sex" on crackers, increasingly sophisticated means are being employed to circumvent censorship laws and get people to purchase various products. These deceitful tactics are meant to subtly influence a person's most primal urges. More importantly, many prominent advertising insiders, by spilling the beans and revealing the tricks of the trade, have given ample ammunition to enraged public advocacy and consumer watchdog groups. Wilson Bryan Key, a former executive at a large marketing firm, has written several books claiming that sexual words and drawings are surreptitiously placed in magazine advertisements to elicit favorable subconscious reactions from readers. The dirty secret is out; sexual manipulation in advertising is endemic and out of control. Although executives claim to mean no harm when exploiting subliminal perception, consumer advocates assert that the opposite is the case. To these concerned citizens, subliminal advertising is unfair and intellectually dishonest. A potential consumer stands indefensible against forces operating below the threshold of his or her awareness. These techniques bypass certain neurological defenses. A vast majority of Americans believe that subliminal advertising is facetious and underhanded. Then why does this practice persist? Very simply, because advertisers, in an attempt to save face and increase revenue, have successfully convinced Congress that these techniques are usually unsuccessful and are rarely utilized. However, thorough research has proven that this is not the case. A sample of addicted smokers underwent a test-study in which they listened to cassette tapes relaying subliminal messages to quit smoking. Predictably, results of the study revealed that the tapes worked, affirming the effectiveness of subliminal tactics.

The smoking industry, in particular, has caused much controversy in its advertisement campaigns. Cigarette companies claim that they are not trying to peddle their product to minors, though their advertisements are blatantly designed to lure new smokers through subtle allusions to greater sexual potency and peer acceptance that can be achieved by participating in the smoking culture. RJR Nabisco, the manufacturer of Camel cigarettes and thereby the company represented by Joe Camel, has been a deft manipulator of the subtle advertisement. Joe Camel came into prominence in 1987, when introduced by a Greensboro, North Carolina advertising agency. Luckily, for future generations of potential smokers, the final nail was driven into his coffin in mid-July by the tobacco company itself. The cartoon character, to anti-smoking forces, best exemplified the tobacco companies push to increase sales to underage smokers. The Camel's suave looks and "cool as a cucumber" personality helped perpetuate the image that smoking was the "in" thing to do. Taking offense to the anti-smoking advocates assertions regarding the harm caused by Joe Camel, Mike Salisbury, the creator of America's most infamous camel, feels critics and pundits have it all wrong. He has claimed that Joe Camel was developed to celebrate R. J. Reynolds 75th birthday and revitalize lackluster sales of the once proud brand name, which had slipped to 4.25% market share. Whatever Mr. Salisbury claims, one fact is certain: Joe was a pernicious camel who introduced thousands of youths around the world to nicotine. The figure is credited with increasing Camel's share of the much-desired teen-market to a robust 13.5%. Joe is simply a prime example of subliminal advertising's negative effects. Although his leering image might be banned from billboards and glossy magazine covers around the country, the damage has already been done. Thousands of people will die of cancer every year because of Joe's slick smile and cool presence.

If advertisers feel the need to resort to backhanded marketing techniques, then obviously they lack the confidence to let their products stand on their own merits. While marketing executives and head honchos may shrug off subliminal advertisements as being "innocent" or "creative", they are gravely mistaken. Subliminal advertising hurts the consumer by denying him the proper freedom to choose. It is not only egregious perversion of the capitalist system, it is anti-American.

Commodity Futures Trading for Dummies

by Jonathan Teitelbaum

Years ago, commodity trading largely resembled a Middle Eastern bazaar. Merchants offering their goods for sale brought samples to the exchange. Buyers would come to the exchange to examine the quality of the offered merchandise and bid on supplies. Businessmen competed with other buyers or sellers, each trying to obtain the best price for their products or buy at the most competitive price.

Today, traders buy and sell commodities in physical facilities called Exchanges and along with consumable goods, trading has been expanded to include financial instruments (e.g. S&P 500) as well. There are 12 futures Exchanges in the U.S. and many others worldwide. The Exchange provides an orderly, fair trading environment with rules and regulations to govern the conduct of business, and the necessary support to ensure that trading data is processed properly, with prices rapidly delivered to the public. Some Exchanges specialize in a specific commodity such as the Coffee, Sugar, or Cocoa Exchange. In the United States, further oversight of the Exchanges' conduct is provided by the Commodity Futures Trading Commission (CFTC), a U.S. government agency.

The trading floor of an Exchange is typically arranged like a little amphitheater with wide steps descending to the center. Traders stand in trading rings or pits on the trading floor. In futures trading there is no auctioneer to direct bidding (buying) and offering (selling). Instead traders recognize each other's bids and offers in a competitive trading method known as "open outcry." They gesture wildly as they bark cryptic buy and sell orders to their counterparts across the pit. In all this apparent chaos, the trading orders flow from the customer, to the broker and finally to the Exchange member for execution in the trading pit and back again to the customer with confirmation.

Today, the physical commodity that was traded in the Middle Eastern bazaar is no longer present to see and touch. Instead, trading is done through instruments called futures contracts. These contracts represent the underlying commodity. The process of trading commodities is also known as futures trading. Unlike other kinds of investments such as stocks and bonds, when you trade futures, you do not actually buy anything or own anything. You are merely speculating on the future direction of the price in the commodity in which you are trading. This is like a bet on future price direction. The terms "buy" and "sell" merely indicate the direction you expect future prices will take.

If, for instance, you were speculating in wheat, you would buy a futures contract if you thought the price would be going up in the future. You would sell a futures contract if you thought the price would go down. For every trade, there is always a buyer and a seller. Neither person has to own any wheat to participate. He must only deposit sufficient capital with a brokerage firm to insure that he will be able to pay the losses in case his trades lose money.

In addition to speculators, both the commodity's commercial producers and commercial consumers also participate. The principal economic purpose of the futures markets is for these commercial participants to eliminate their risk from changing prices.

On one side of a transaction may be a producer like a farmer. He has a field full of wheat growing on his farm. It won't be ready for harvest for another three months. If he is worried about the price going down during that time, he can sell futures contracts equivalent to the size of his crop and deliver his wheat to fulfill his obligation under the contract. Regardless of how the price of wheat changes in the three months until his crop will be ready for delivery, he is guaranteed to receive the current price.

On the other side of the transaction might be a producer such as a cereal manufacturer who needs to buy lots of wheat. The manufacturer, such as General Mills, who makes the breakfast cereal Wheaties(r), may be concerned that in the next three months the price of wheat will go up, and it will have to pay more than the current price. To protect against this, General Mills can buy futures contracts at the current price. In three months General Mills can fulfill its obligation under the contracts by taking delivery of the wheat. This guarantees that regardless of how the price moves in the next three months, General Mills will pay no more than the current price for its wheat.

In addition to agricultural commodities, there are futures for financial instruments and intangibles such as currencies, bonds and stock market indexes. Each futures market has producers and consumers who need to hedge their risk from future price changes. The speculators, who do not actually deal in the physical commodities, are there to provide liquidity. This maintains an orderly market where price changes from one trade to the next are small.

Rather than taking or making delivery, the speculator merely offsets his position at some time before the date set for future delivery. If the price has moved in the right direction, he will profit. If it does not, he will lose. Since speculators perform the valuable functions of providing liquidity and assuming the risk of price fluctuation, they can earn substantial returns. The potentially large profits are available precisely because there is also a risk of substantial loss.

There are many inherent advantages of commodity futures as an investment vehicle over other investment alternatives such as savings accounts, stocks, bonds, options, real estate and collectibles. The primary attraction, of course, is the potential for large profits in a short period of time. The reason that futures trading can be so profitable is leverage.

For instance, if you had a $10,000 fu-

continued on page 5

The Exchange would like to congratulate each of the winners on their victories in the 1998 Sy Syms School of Business Student Association elections.

The 1998-1999 Executive Board is:

Uptown SSSBSA Board
President - David Neiss
Vice President - Joe Dyckman
Treasurer - Yet to be determined
Secretary - Joshua Swedarsky

Midtown SSSBSA Board
President - Adina Loberfeld
Vice President - Marina Klochan
Treasurer - Susan Wohlgelernter
Secretary - Carla Schron

The Exchange would also like to express its gratitude and appreciation to all the candidates for their efforts and participation in this year's election.

Personal Investment Strategy

Continued from Back Page

get that M.D. Specialists may give up even more.

To look at things another way, suppose five friends are comparing incomes at their 10th college reunion. A CPA is earning $60,000, an MBA is earning $67,000, the College Professor and Lawyer are earning $71,000, and the Doctor is earning $92,000. Assuming they all have similar saving and investment habits, they will all be able to afford about the same standard of living and have the same amount of money at retirement.

Factor in Growth Rate

The above analysis assumes that salaries in all professions grow at about the same rate. But that is unlikely. Every job has its own dynamics. In the average career, salaries will grow at the same rate as National Income. That rate is hard to predict. But it is relatively easy to predict which careers can support salaries that grow faster than average, and in which careers salaries will be left behind.

How can I make these predictions? One way is common sense. What is the big political issue in Health Care? How to lower the costs. In the Legal System? How to cut lawyers' fees. In Education? How to spend more government money, and help people borrow to spend even more money, on College. I don't know how these fights will resolve themselves, but clearly they favor College Professors over Lawyers and Doctors.

Another way is to look at the growth rate the market assigns to companies that are correlated with these professional incomes. Then I look at the projections about net number of people entering these fields versus new demand. The result is a guess, but an educated guess. [I am sure that many people will disagree with me; let them get their own columns.]

Let's start with Doctors. I have little doubt that the percentage of National Income spent on Health Care will decline, that the proportion of Health Care dollars going to Doctors will decline, that the brunt of the reduction will be borne by Doctors entering Medical School today and that a dramatic increase in the number of Doctors will dilute incomes further. From a financial perspective, the profession looks pretty bleak.

That is not to say that no one should be a Doctor. The best brain surgeons in the country will always be very well compensated. The best researchers will do enormous good. The world needs great Doctors and will never have enough of them. The world also needs altruistic Doctors and will never have enough of them. If you are willing to treat the patients no one else wants, by all means go into medicine.

What the world does not need and will not pay for is more average Doctors who expect to get upper-middle-class incomes.

How about lawyers? Their position is not as grave as Doctors but it is not good. Technology has only begun its assault on the legal system. I think that many Lawyers in the next fifteen years will be like middle managers in the 1970's and 1980's. Technology will allow top Lawyers to be much more efficient and cut out the need for average lawyers.

Again, the world always needs great lawyers. The best criminal defense lawyer in the country will always be able to name his or her price. The most formidable champions of justice will do immeasurable social good. And the world needs altruistic lawyers, people willing to take meager salaries to bring justice to the downtrodden. But the world does not need and will not pay for more average lawyers who expect upper middle-class incomes.

College Professors look good at the moment. Demand is surging and no one is sparing costs. But I suspect that we are just a few years behind Lawyers. Many of the same technological changes that have already transformed Business and are making inroads into Law are going to find their way into Education as well.

The Accounting profession has weathered the information revolution and emerged relatively healthy. I have always been impressed at the political facility of Accountants. Doctors' professional groups seem to act self-destructively. Lawyers have enormous political clout but dangerous enemies as well. College Professors do a pretty good job for amateurs. But Accountants always seems to deflect criticism into quasi-government organizations which end up supporting the status quo.

I am confident that CPA's will continue to enjoy reasonable earnings growth. They will continue to be in demand, both for their professional skills and for general business purposes. This does not mean everyone should be a CPA, just that an average CPA has an above-average financial shot in life.

The MBA is a somewhat different story. Here I see increased competition. Above-average MBA's, in my opinion, can expect exceptional income growth, as good as any career. But below-average MBA's may find the degree nearly useless. The MBA as credential is being devalued, but there is increased demand for old-fashioned business skills.

I see the best outlook for entrepreneurs. I think that the balance between wage income and profits on capital has shifted toward the latter. In the future I expect owners to do well relative to managers.

Don't Forget Risk

Some careers have a reasonably predictable income stream, others are wildly variable. Military officers have steadier incomes than actors. A steady income means a higher multiple since low-risk cash flows should be discounted at low interest rates.

The major career risk is that you will invest in a fixed asset that comes into oversupply. Like the owner of an office building in a city with a high vacancy rate, you will see your income drop sharply. You may even have to give up your fixed asset and switch fields. Real estate developers are often rich and famous, but think about how many of the famous ones went bankrupt.

I grew up in Seattle where Boeing is still a major employer. When Congress killed the SST project in 1969, Boeing laid off thousands of engineers. One aerospace engineer, who was a friend of my family, told me: "never specialize in hardware." He was the brightest student in his class, he was steered into the most difficult and glamorous field; he was a world expert on wing stresses during supersonic flight.

But his expertise was limited to specific wing materials and designs; with no SST, no one wanted his fifteen years of intense study. So he drove a cab and brushed up on his electrical engineering. The good news is he devoted his second career to computers, started a company with some friends, and sold it 15 years later for almost $20 million. So he was a genius at 25; a has-been at 40; and a millionaire at 55. Life is like that.

It appalls me as a finance professor to see students make huge illiquid investments in professional certification without serious thought. The trouble with an illiquid asset is that you cannot sell it or shift it to another use. If there is even a tiny surplus, the value of the asset goes to zero.

Many of my friends went to Law School, slaved away for three years of school and several years of incredible hours at law firms only to find that they did not like law. To me this is like someone investing hundreds of thousands of borrowed dollars in a stock they know nothing about.

If you plan to make one of these investments, please research it first. Carefully consider the demand for your specific talent and subfield. Work in the profession for a year or two before committing to it for life. Make sure it is what you want and that it will repay your efforts.

I think most people, those without a deeply-felt urge for a specific profession, should cultivate general skills that can be quickly shifted to meet changing economic demand. Communicating, calculating and dealing with people will always command good salaries. People who can do all three will do very well. Maybe you will start as a journalist, move into sales, then become an analyst. Each of your jobs adds to general skills that are valuable later.

Keep Your Eye on the Bottom Line

Factoring in starting salary, development time, growth rate and risk, here are my personal estimates of the Net Present Value of Lifetime Earnings for various career choices. Each estimate is for an average person in the field; top people will do much better (but remember, half the people will do worse).

College Professor - $2,500,000; CPA - $2,500,000; Doctor - $1,500,000; Entrepreneur - $3,000,000; General College Business job - $2,000,000; General College job (average job that requires a college degree) - $1,500,000; General High School job (average job that requires only a high school education) - $1,000,00; Lawyer - $1,500,000; MBA - $2,500,000 (but wide variation).

Convert to a Flow

The above numbers are hard to interpret on their own. Consider them in relation to the average investment rate you earn after inflation. Suppose over your lifetime your investments beat inflation by 4% per year (this is about the historical return of the stock market). Then if the Net Present Value of your Lifetime Earnings is $1,000,000; you could live on an income of $40,000 (4% times $1,000,000) in 1998 dollars forever. You would borrow money when you were young, pay it back as your income increased, and save up money for retirement.

However, this illustrates that investment success is as important as a good income. The average person loses money after inflation; if their Present Value of Lifetime Earning is $1,000,000 they will have to spend capital. They could live on $25,000 in 1998 dollars for 40 years, then have nothing for retirement.

If your investments beat inflation by 2% per year; you could live the lifestyle of someone with a constant inflation-adjusted income of $20,000 per year. With 6% you could spend like someone with a $60,000 annual lifetime annuity with cost-of-living adjustments.

So the worst-paying job above, the general high-school job, with a 6% real return can support the same lifestyle as the best-paying job above, with a 2% real return. Financial planning is as important to your wealth as a good income.

Remember the Family

The above numbers assume a single person who works every year until retirement. But many people will take time off to help raise a family, to travel to Israel, to perform some public service, for health reasons, because they get fired, or just take time off. Also, most people will find themselves in a two-income couple for at least part of their lives.

Just as a portfolio reduces risk, two wage earners will be better equipped to meet life's financial challenges than one. I would apply a higher multiple to a couple, since there is less risk, so the Net Present Value of their Joint Lifetime Incomes is greater than the sum of their individual careers. This is particularly true when you combine a risky and less-risky career.

The cost of taking time off is much lower than most people assume. Of course it depends on the amount of time. If you want to have children the minute you graduate college, have ten children, and not work outside the home until the last one has left for college; you have given up about two-thirds of your working life and 90% of the Net Present Value of your Lifetime Earnings.

But if you work a few years, have some children, resume some part-time or at home work, then resume full-time work when your youngest child begins school, the cost might be more like 15% or 20% of the Net Present Value of your Lifetime Earnings. There is still enough left to take your career decisions very seriously.

Again, sharing this time off reduces the cost considerably. Two parents doing part-time work can often lead to a higher income than one full-time and one homemaker. I also believe that a varied life is a happy life; and that a complete person, man or woman, should spend part of each day talking to children and part of each day talking to adults. All children make you crazy, all adults are boring.

Trust Yourself

Finally, it is better to make your own mistake than to blindly follow others' advice. Please don't sleepwalk through life; making the normal choices at the normal times. You were given a life to live, not endure. Mistakes are part of that life.

Sometimes those mistakes turn out to be blessings (remember my millionaire aerospace engineer?) but even when they do not, they help make you a real person. Real people make decisions, learn from their mistakes, and have a chance to end up happy. Sleepwalkers float through the years, with no idea of where they're going and only dim memories of where they have been.

I hope all my students are happy in life. I want them to have good health. I pray that they are good people and raise good families. I wish them success and wealth. But more than any of this, I hope that they do something different, something individual, something interesting, something they feel to be passionate.

So make your career choice. Consider the money and the other aspects. But after all the calculation, make sure you are doing something you really want. Something you believe in. Do not just mark time until marriage or business school or death. Don't pick something at random because you don't really care. Don't get so worried about getting a job that you forget to look for a good job.

And if you find that good job, come back and tell me. I have a stack of resumes for you.

EDITORIAL

"Jim, have a nice weekend, and remember, don't forget the memo you have to write." How many times does a conversation similar to this take place in the offices and sterile cubicles of corporate America? Indeed, whether one is a middle level executive toiling in some corporation or an investment banker raking in the dough in some prestigious investment bank, the ability to know how to write is an invaluable commodity which can determine how fast and far one can move up the corporate ladder. Thus, for the life of me, I can not understand how the Sy Syms School of Business - a school whose stipulated objective is preparing young men (and women of course) for the predatorial business world - does not do a better job in teaching students how to write. Today, when competition for high-powered jobs on a booming Wall Street is more fierce than ever, firms have the option of choosing from literally hundreds of applicants. Not surprisingly, these firms look for any unique skill which is able to distinguish one resume from the hundreds of others like it. While the ability to write does not seem to be a skill one must have in order to succeed in business today, one should definitely not be mistaken; writing is a skill all people in the work place must display on a daily basis. Brief memos, informative studies and critical reports play an integral role in determining the direction in which a company may decide to go. One can literally dream up thousands of scenarios where an accountant or stock analyst is forced to write passages which other will read and base decisions on.

But in order to sharpen my point, I feel it imperative to bring an example from a teacher in SSBB, Professor Aaron Brown. Earlier this year, Professor Brown wrote a scathingly hysterical article, critiquing the writing acumen of a Y.C. student (a Classics major, nonetheless), who wrote a pompous, grammatically lamentable article, bashing Sy Syms students for their parochial education. While surely this was a shining moment in SSBB's short-lived history, as a Finance professor deftly deflated the ego of an arrogant Y.C. student in front of the whole institution, Professor Brown, by writing such an articulate and thought provoking article showed one remarkable feature that most, if not all of the cackling Sy Syms students failed to pick up on - the necessity of being able to express oneself succinctly. Had Professor Brown written the article like the typical Sy Syms student, then I doubt very much that people would have taken his letter very seriously. However, Professor Brown, displaying barbed wit and sharp logic that his *Logic and Rhetoric* teacher at the University of Chicago would have been proud of, methodically went about in demolishing the Y.C. student's article. But what one should have learnt from Professor Brown's article is that even financial analysts know how to write, and indeed, Professor Brown is far from being unique. Earlier this week, the New York Times published a piece on their prestigious oped page by an investment banker turned novelist.

Thus, if SSSB students are serious about making money (which I definitely know they are) and being as qualified as possible for the "real" world, then I suggest that they listen to what I am going to say. Sy Syms should require all students to take both one year of *English Composition* and one year of *Expository Writing*, geared specifically for the business world. The benefits of such requirements are clear. Syms students, for the first time, will be forced to articulate themselves on paper for an extended period of time. They will will be forced to think critically, organize thoughts and persuade other to adopt their views. More importantly, SSSB students will feel much more comfortable when it comes to writing. For their entire college careers, students will be able to cultivate and nurture a skill that they will use for the rest of their lives. Who knows - some students may even enjoy writing and pick it up as a hobby.

The stereotypical Sy Syms student- i.e., a close-minded, money obsessed person not smart enough to go to graduate school and become a professional - is both false and insulting. It is a crude generalization perpetuated by Y.C. students whose lack of confidence in themselves forces them to disparage others. On the whole, most students would be willing to work harder and think more, if they could only see the tangible benefits in doing so. The education that Sy Syms gives to its students is tantamount to malpractice. Instead of trying to imbue its students with the proper skills, SSSB forces its students to take a disproportionate amount of "Mickey Mouse," low-level courses. One hardly sees the logic (or lack thereof) behind a policy that requires a business student to memorize trivial facts in some marketing book, while not requiring that same student to be proficient in his logic and writing skills. If anyone disagrees with any points in this article, then I implore them to pay attention to the next time Professor Brown writes another article.

Classifieds

THE EXCHANGE
appreciates letters, commentary, and responses from all of its readers.

All correspondence should be directed to either
yoppenh@ymail.yu.edu or

THE EXCHANGE

500 W. 185 St.

New York, NY 10033

Personal Employment Strategy

Ten Rules For Job Hunters

by Professor Aaron Brown

Here we are, halfway between Purim and Pesach, at an eventful time for seniors. They have taken their last midterms (maybe forever!), they have made their millionth excuse for not starting their senior research paper, and they are thinking about careers. Some are deciding which of several tempting offers to accept; others are looking for that first offer. Surprisingly few, in my experience, are devoting any serious thought to what they really want to do.

This is understandable. Life is unpredictable. Most of us do not end up anywhere near where we expected to go. In retrospect, life seems like a series of implausible accidents. So why worry about something so random?

However, this is not the sort of reasoning we encourage in finance. The stock market is also pretty random, but that does not mean you should pick stocks with a dart board. We study and calculate to decide which investments are good and which are bad. We know the future may turn all our assumptions on their heads; that many of our parameters are just guesses; that nothing works out as neatly as it looks on paper.

But a decision based on meticulous analysis of the best available data is far better than a guess. Consider a person lost in the woods. There are many available strategies: follow a stream, guess direction from the sun or moss on trees, pick a point on the horizon, etc. Some of these strategies may lead in the exact wrong direction but all will get the person somewhere. People who have no strategy, who simply wander as seems right at the moment, will end up going around in circles. A strategy offers a chance of success; wandering almost never works.

Another advantage of calculation is that it can be improved. You make a decision and project a result. You get another result. You can go back and find the error, correct it, and make a better decision for the future. If you decide by feelings with no explicit prediction of a result, you have no way to refine your decisions.

So I decided to write this Personal Finance column on applying financial reasoning to a career choice. Much of the data I use represents my subjective opinion, so other people might use the same techniques and come to a different result. But I think everyone can benefit from considering these things carefully. Here are the classic rules of capital budgeting, applied to the career decision of a college graduate.

Ignore Sunk Costs

It shocks me how many students will not even consider alternative careers because: "I'm an accounting major" or "I'm pre-med" or "I have good work experience at. . ." Forget it. The time you spent studying accounting or organic chemistry or working at a summer job is gone. You cannot get it back whatever you decide today. So make the best decision for the future, even if it wastes some work you did in the past.

Consider Side Effects

A typical workweek of five eight-hour days plus a half-hour commute each way represents 40% of your waking hours from now until you retire. People who work long hours and have long commutes often exceed 50%. When you factor in time spent studying for a career, reading outside of work, business travel, socializing with co-workers and so on; you may spend 60% of your life on work in one way or another.

Moreover your job may determine where you live, when you get up in the morning, what clothes you wear, who your friends are and dozens of other large and small things in your life. And, for many people, doing a good and useful job is one of the major accomplishments of their entire lives.

Many students never think past money, prestige and what other people want for them. Be sure you have considered all the aspects before you decide.

Compute Net Present Value of Lifetime Earnings

Students almost always consider the average salary in various careers. But this can be misleading. It is the Net Present Value of Lifetime Earnings that determines whether you will struggle or be comfortable.

Valuing lifetime earnings is similar to valuing a common stock. In both cases we must look not just at current earnings, but at risk and potential for growth. Some stocks sell at high multiples to earnings; that means people will pay 50 or 100 times what the company earned last year. Other stocks sell at low multiples (or low Price/ Earnings ratios). For these stocks people might pay only 5 to 10 times last year's earnings.

All other factors being equal, it makes more sense to pick a career with, say, current average salaries of $40,000 but a multiple of 100 than a career with current average salaries of $100,000 but a multiple of 10.

How do you estimate the earnings multiple of a career? It depends on three main factors: development time, growth rate and risk.

Adjust for Development Time

Some companies are making money today; others are thinking about doing research that might lead to a prototype that might go into production that might someday make money. Obviously, investors in the second type of company demand a higher rate of return due to the delay in cash flows.

Similarly, some careers, like Public Accounting, start paying good salaries immediately after college graduation. At the other extreme, Medical Doctors and College Professors may not earn much salary until they are in their 30's. Lawyers are in the middle, as are business careers that demand an MBA.

How much adjustment is necessary? This depends on a number of assumptions, but as a ballpark figure an MBA reduces the Net Present Value of Lifetime Earnings by 10%. The two lost years of income, plus the tuition, mean that if your MBA increases your income by 10% you will be equally well-off financially with or without the MBA.

Lawyers' incomes should be adjusted downward 15% to cover the cost of Law School. College Professors have to study longer for a Ph.D. but they generally receive financial support and some income. Therefore the cost of their development time is about the same as Law School. Medical Doctors give up 35% of the Net Present Value of their lifetime earnings to

continued on page 10

EXCHANGE
500 West 185th Street
New York, NY 10033