

The application of thought of financial management in college students' investment decisions

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Abstract: With the rapid development of Internet technology, outline financial products emerge in endlessly. Some college students who they have the demand for money but do not have financial management knowledge are easy to fall into illegal loan platforms' trap; others who are interested in investing do not have specific knowledge about investment and just choose to follow the flows. According to this kind of situation, it is necessary to apply the thought of financial management in college students' investment decisions. In this paper, we mainly give three direction about the application of the thought of financial management. For each direction, we clarity it from two aspects that are theoretical knowledge and practice application through combining financial management theory with practice.

1. Introduction

In China, Internet finance has developed rapidly. But as an emerging thing, Internet finance has not been effectively regulated. Meanwhile, college students lack social experience and financial management knowledge. They are vulnerable to be tricked into illegal micro-finance organizations. For example, because of "campus loan", Someone have to drop out of school and others even chose to suicide to get out of this painful situation. This is indeed a social phenomenon of concern! In response to this social phenomenon, it is necessary to apply the thought of financial management in college students' investment decisions.

2. Current situation in college students' investment decisions

With the rapid development of Internet technology, outline financial products emerge in endlessly. Their appearance makes it easier for investors to finance funds. And in a way, it makes up for the low efficiency of offline financial products. However, as the online financial products market is immature, many online financial APPs are illegal. They gain profits through excessive interest rates which are beyond the national legal interest rate. More importantly, they accumulate money fast through the power of compound interest on a monthly even a daily basis. Many people just lend a small amount of money, but as a result of this decision, the debts they carry are dozens of times as much as principles. It is even more painful that people with ulterior motives design lending software called "campus loan" or college students, especially female college student, ask female college students to provide their own nude photos as the price of getting a loan. Once they do not afford to refund the loan, their nude photos will be spread throughout the network. However, many college students fell into the simple trap. They were afraid to tell their parents. Someone have to drop out of school and others even chose to suicide to get out of this painful situation. This is indeed a social phenomenon of concern!

Meanwhile, many college students are crazy about stocks. Originally it is not a big deal. However, many college students do not have specific knowledge about investment. They just choose to follow the flows, As a result, they do not have economic power to take a risk and eventually they are bankrupt.

3. Cause analysis from economic point

As the development of society and the invasion of foreign culture, the idea of premature consumption planted in college students' heart. It is understandable for college students to seek finance service for their over consumption. The most important thing is the reliability of lending platforms. If lending platforms are legal, their interest rates are limited to a reasonable range and they offer loans to someone according to everyone's credit ranking. The consequences are manageable and controllable. According to many survey data, 90% victims lack basic financial and investment literacy, 80% of college student who do not major in financial and account do not have basic knowledge of investment and financial management. From the result of the investigation, we can conclude that the keyword to decrease the occurrence of adverse events is to improve college students' financial management literacy.

As the threshold for financial market access is lower, the ease of trading and openness of information make it easy for some college students crazy about investment to conduct financial transactions. They do not have to arrive at the exchange in person and just transact through mobile phones. So people who invest bonds are increasingly young. The proportion of college students is bigger. However according to the survey, 60% of the college students as investors do not master necessary financial management knowledge and they just follow their heart. So it is necessary for college students to learn financial management knowledge to satisfy their investment need.

4. The solution to problem

Popularizing financial management knowledge is the keyword to solve these problems. Because we mainly aim to college students who do not major in financial or accounting, our knowledge system design should focus on the application of financial management thought to economic life and simplify complex financial management theory. To stimulate college students' interest in financial management and improve their ability to apply knowledge, in the presentation of knowledge, we should take examples as much as possible. Below I will give four typical examples about the application on college students' investments.

4.1 he concept of present value, future value and annuity

(1) Theoretical knowledge

First, I give a basic explanation of the concept. Present value (PV) which is also called present discounted value is a discounted value of a sum of money in the future at a certain interest rate. Future value (FV), also known as profit sum, refers to the value of a certain amount of money at a certain point in the future. And they are interchangeable. Their relationship could be said that if we use simple interest (r); $FV = PV(1+r)$. If we use compound interest, $FV = PV(1+r)^n$. As for annuity, it means a series of payments received and paid at an equal amount at a specific time, usually expressed as A . We also combine annuity with PV and FV. According to following formulas, we could calculate accumulated annuity's FV and PV.

(2) Practice application

Mastering the concept of FV and PV is very useful. It could help college students pick up a good habit of taking plans for future. For example, when college students have roughly estimated their spending at some point in the future, such as 3000 yuan for a trip to Beijing in 2 months, 500 yuan for inviting girlfriend to have a lunch in 2 weeks and 300 yuan for giving a friend a present. In these cases, FV and time internal are certain. To achieve future goals, college students just need to know their current financial situation. According to the formula, they could calculate the interest they

need. If the interest rate they need exceed the legal range, they should consider adjusting the amount of principle or changing the plan to avoid themselves falling into the plight of insufficient funds. If the concept of FV and PV could deeply root in the hearts of college students, it is beneficial to help college students pick up a habit of rational consumption and decrease college students' unreasonable borrowing especially for "campus loan".

As for annuity, taking advantage of annuity could help college students realize the power of money management. Perhaps, in four years, some college students need a sum of money to study abroad or for entrepreneurship. To avoid a huge amount of expenditure all of a sudden,

College students could choose the form of annuity that they could create a deposit account to save a small amount of fixed money in a certain period. Gradually, they are used to leave some money every month or every year for investment purposes. And the investment could be used all the time, such as preparation for their retirement funds, education funds support for their children and so on. In a word, it is beneficial for college students' maturity in investment thought and even so profound that it could affect their whole life's decision-making.

4.2 Basic accounting ratios used to analyse financial statement

(1) Theoretical knowledge

Financial statement mainly include balance sheet and income statement. They reflect the company's whole operating effectiveness. Balance sheet represents the main financial position of the business at a given date, such as assets, liabilities and owners' equity. Income statement reflects the operating results including sales, cost and profit of an enterprise at a certain period. Accounting ratios are mainly divided into three categories, in order: liquidity ratios, profitability ratios and market value ratios. The following figure contains a typical classification of indicators and representative indicators.

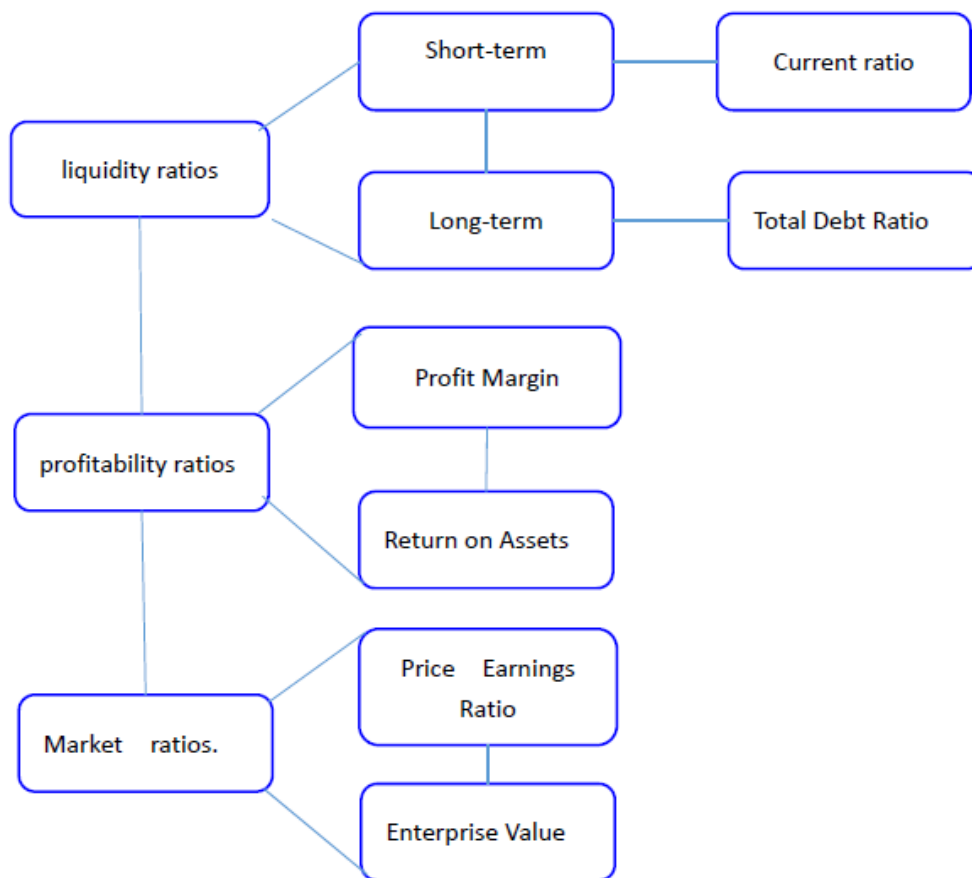


Figure 1. Accounting ratios' classification

(2) Practice application

Mastering accounting ratios analysis is a practical technique for college students who are interested in investing bonds. Before deciding whether to invest in a particular company, they are supposed to research the company's financial statement. Through financial statement, they could have access to information which reflects the company's financial situation and development prospects, giving us decision-making support.

Then it is especially important to interpret financial statement through accounting ratios. These ratios could help college students make correct judgment on the basic situation of the company. Currently, many listed companies take advantage of herd mentality, advertising falsely their company's performance. This leads to a short-term rise in stock prices. If college students master accounting ratios analysis, it is easy to detect deception. In addition, there are some entrepreneurial enterprises with great development potential. However, in the early stages, they are likely to make little profits and even make a loss. Meanwhile they do not have a lot of market recognition. So their stock prices are low. If college students master accounting ratios analysis, they could find these companies' market value through analyzing accounting ratios. In a word, accounting ratios analysis has strong guiding significance. It could exploit the advantages of college students as intellectuals.

4.3 The application of strategic business leader model

(1) Theoretical knowledge

In financial management, there are many useful strategic business leader models used to make decisions. In this paper, we just choose a typical models to clarify the application of strategic business leader model in college students' investment decisions.

First, we introduce SWOT model. It is used to determine the enterprise's own competitive strength, weakness, opportunity and threat so as to organically combine the company's strategy with the company's internal resources and external environment. This is shown as below.

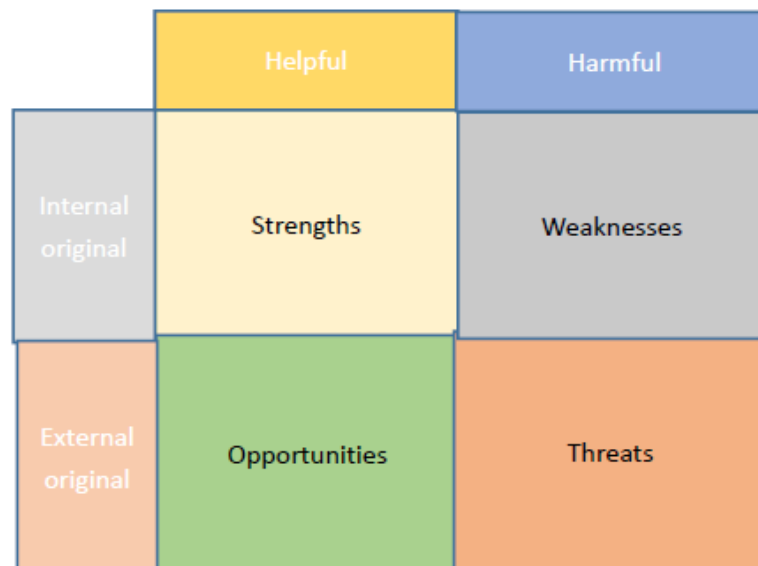


Figure 2. SWOT model

(2) Practice application

For some college students as investors, at the macro level, there are all kinds of investment products, such as treasury bills, bank deposits, bonds and so on. At the micro level, in the selection of a financial product, different financial platform which are online or offline give different interest rates. In a word, before making investment decisions, there are many factors which need to be considered. Many college students have little experience, they tend to be confused to choose. In this case, SWOT analysis method could give some guidance. It needs to consider things from four dimensions. For college student investors, strengths mean earnings which is divided into interest and trading price difference. Weaknesses means risk that the stock went down or the borrower

cannot repay the principal and interest and so on. Opportunities mean that if investors choose to a specific investment project, investors could gain the long-term development opportunity, such as the growth potential of stocks in an industry. Threats mean that if investors choose to a specific investment project, investors are likely to suffer long-term loss, such as in the future, the whole stock market will become low. In a word, college students could use this technique to weigh advantages and disadvantages. Through analyzing four dimensions, they could make rational and comprehensive decisions as far as possible.

In addition, for some college students who they have the demand for money, it is especially necessary for them to adapt SWOT model to do the wise decision. When they would like to lend money to consume some things, they should list the strengths and weaknesses to weight the relationship between them. Do this thing have to be bought? Getting this clothes or the shoes, are the strengths bigger than weaknesses Then when choosing the loan platforms, college students could take advantage of SWOT model to compare the opportunities and threats. If college students could know some financial management model, such as SWOT model, tragedies like ‘‘campus loan’’ will be decreased.

5. Conclusion

Based on current situation in college students’ investment decisions, we find that it is effective to apply the thought of financial management in college students’ investment decisions. In this paper, we mainly give three direction about the application of the thought of financial management. There are many other aspects about application that are worth studying. Meanwhile it is also noted that in the process of popularizing financial management knowledge, we need to combine financial management theory with practice to improve the acceptance of financial management knowledge and help college students make rational investment decisions.

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