



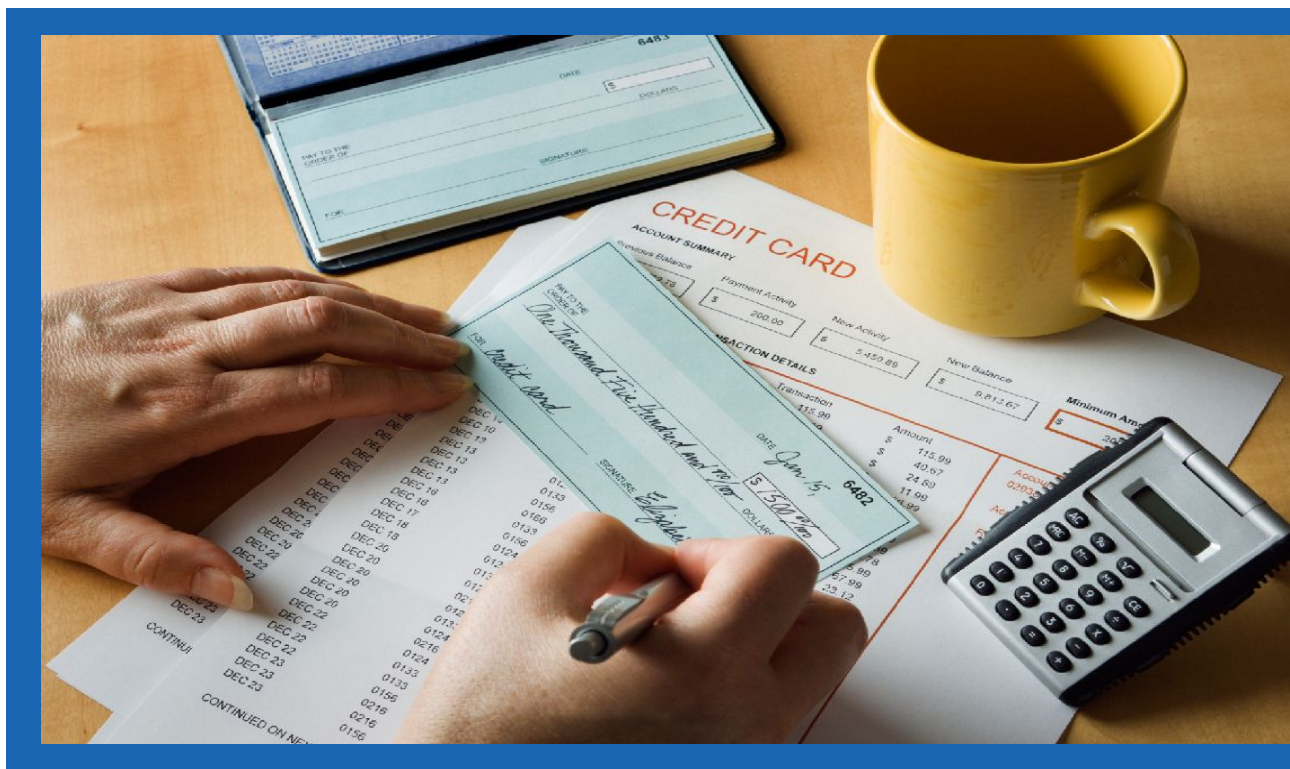
Your Money, Your Life: Facing Economic Fears

A Balanced Living Special Edition Newsletter

The unofficial slogan for the New Year seems to be, "Make 2008, Two-Thousand Great!" And while Americans have used that motto to fill their spirits and begun to make positive changes that will last the whole year and beyond, news of a potential economic downturn has begun to surface. Just half-way through January, we saw the stock market slide, the declining housing market breaking records, and begun to hear whispers of a coming recession.

It appears that our economy is slipping, and for many of us, especially those who haven't made preparations for financial emergencies or who are still struggling with mounting debt and mortgage payments, this could present a real and tangible fear.

The first step to overcoming adversity is admitting that it exists. Whether your spending is out of control, your savings not being given the attention it deserves, or your financial decisions made without counsel, you need to admit where your mistakes exist in order to correct them. The next step is to figure out how you'll go about making changes. For that, you'll need a plan.





The resources chosen for this special edition newsletter are focused on helping those who will be impacted by a sudden change in our economy or those simply wishing to better balance their finances see the value in creating a smart financial plan and making the commitment to sticking to it. Through willingness to change and a carefully chosen pathway to finding success, you can improve your financial situation and bring stability to your life.

When Recession Fears Surface, Check Your Plan - Or Make One

January 24, 2008 began a wild week on Wall Street. When trading reopened on the Tuesday following the Martin Luther King holiday, the Federal Reserve Board responded to world pressure and swooped in with a rate cut to put a floor on Dow losses that were approaching 20 percent since October 2007. By the end of the week, things had begun to stabilize.

But what about tomorrow? And then next week, and the weeks after that?

If this question fills you with worry, then it's pretty clear you're operating without a plan, or at least one you haven't recently checked. That's OK. When worldwide market worries surface, it's easy to get scared. It's particularly easy when we've had such major market calamities as the U.S. mortgage debacle and the lingering disarray in the banking and investment industries.

But sudden action is usually a mistake. In the late 1980s, Harvard psychologist Paul Andreassen made news with a research project that found that people who listened to market news actually made lower returns. Why? Because those who sold, or bought, during a market swing probably found a day later that the market was really running on hype, not fundamentals.

You pay a financial planner to devise a financial strategy that matches your risk tolerance and long-term financial goals. Now, there is absolutely no way to guarantee that you'll never lose money. But if a plan truly matches you, the noise shouldn't make a difference, particularly if you don't need the money *today*.

So the next time world markets spike or slide, ask yourself:

What's my plan? If you've worked with a financial planner, such as a CERTIFIED FINANCIAL PLANNER™ professional, you should be able to articulate those goals all by yourself or refer to an investment policy statement you made together. Much of the riskiest investing, overbuying and panic selling during the late 1990s and early 2000s could have been avoided if individual investors had sought advice for achieving *long-term* specific goals such as retirement or a college education.

What's my risk tolerance? At your first meeting with a planner, you should have discussed a number of questions about how you handle risk and what your expectations were about investment returns. You might have had to do this more than once if your risk tolerance was low but your investment expectations were high, low-risk investors can't expect the highest returns. That's part of the education process when you visit a planner.



Am I prepared to stay invested – no matter what? We all remember the "Tech Wreck" of 2000. At the worst of that downturn, investors bailed out of the stock market or drastically cut back, only to get back in after they were "convinced" that the market was rebounding. In reality, they missed out on stock market gains during the early stages of recovery, and that's costly in the long run. Of course, some investors looking for that late 20th century investment high also got into the real estate market, and they perhaps learned a similar lesson when that market started heading south two years ago.

In 2004, SEI Investments studied 12 bear markets since World War II. Investors who either stayed in the market through its bottom, or were fortunate to enter at the bottom, saw the S&P 500 gain an average of 32.5 percent (not counting dividends) during the first year of recovery. Investors who missed even just the first week of recovery saw their gains that first year slide to 24.3 percent. Those who waited three months before getting back in gained only 14.8 percent.

Am I diversified? The NASDAQ lost 39 percent of its value just in 2001 and another 21 percent in 2002. Meanwhile, real estate investment trusts, which performed poorly in 1998 and 1999 when stocks were booming, had banner years in 2000 and 2001, performed so-so in 2002 and had an excellent 2003. Bonds also returned well during the bear market. Your planner, based on your risk profile, should have you in diversified investments that fit your goals.

Do I still feel the same way I used to about returns? Having a long-term investment plan doesn't mean make the plan and leave it to gather dust. You and your planner are a team. Both of you should talk and decide when it's time for a detailed review of your investment goals and whether or not they should change. An annual conversation makes sense if nothing's going on, but life events like death, divorce, kids moving out, and illness are good reasons to do a head-to-toe review of a financial plan.

If you're worried about what might happen, there's no reason why you shouldn't call your planner to calm your nerves and confirm what you're doing. And if you've never talked to a planner before, now might be a pretty good time to start.

Provided by Financial Planning Association

Manage Your Debt by Creating a Spending Plan, and Stick to It

If you really want to reduce your debt, the first thing you will need to do is create a spending plan, then stick to it. Your spending plan, or budget, needs to focus on paying down your debt and not adding to it. This may mean cutting up the credit cards and avoiding sales and bargains that are too good to be true. Set your primary financial goal to be out of debt in six months, a year, two, or whatever it takes. Write it down. You need to stick to this plan until you have achieved your goal.



It may be difficult to define what is essential and what is "luxury," but if you are to get out of debt, you must be tough.

Identify and prioritize essential expenses. Limit your spending to the bare essentials: food, shelter, utilities, etc. It may be difficult to define what is essential and what is "luxury," but if you are to get out of debt, you must be tough. Make a list of essential expenses and how much they cost on average each month. Do not forget those expenses you pay only once or twice a year, such as insurance premiums or property taxes. If you can economize and reduce some monthly expenses, do that. You may reduce utility bills by carefully adjusting the temperature in your home by raising the thermostat in summer and lowering it in winter. Turn lights off in rooms when no one is in them. Spend less time on the telephone. Avoid expensive convenience foods and buy raw ingredients to prepare less expensive, more nutritious meals. Make gifts instead of buying expensive items to give away during holidays and for special occasions. If you set your mind to it, you can come up with many ideas that may save you pennies a day, which add up to dollars you can use to reduce your debt.

Write your expenses down. Write down how much they cost each month. Once you make your list, do not buy anything that is not on it until you reduce your minimum debt payments to below 15% of take-home pay.

By the way, your monthly debt payments are not expenses. Except for your mortgage payment, which is like rent, debt payments are the ghosts of prior months' expenses you incurred when you did not have enough cash to pay for them. Furthermore, they are causing you to pay more and more for those prior expenses because they have hidden expenses, interest and finance charges.

Make a list of all your take-home income. This is what you have available to pay your debts and essential expenses. Do you usually get a large income tax return each year? If so, adjust your withholding at work so you get the money each month when you need it.

Now deduct your monthly debt payments (except your mortgage) from your income. This is what you have left to pay essential expenses. Here is where many get into trouble. If you find that you do not have enough to pay debts and expenses, you will need to take additional action. Some people simply start juggling debt payments by making minimum credit card payments or paying one bill this month and another the next. This is a bad move.

Revisit economizing. Look at those expenses again. Economize where you can. When you get to the point where you simply cannot cut expenses any further, you have one of two choices: earn more income or lower your monthly debt payments. It might be necessary to take another job, or have a non-working spouse take a job to bring in additional household income. Lottery tickets and casinos won't do it - do not waste money. Reducing your monthly debt payments is a little trickier. Avoid the temptation to juggle payments - that only costs more in the long run, and it may damage your credit rating.

If you set a priority of being out of debt by a certain date, you will need to determine how much you must pay each month until that date to reduce your debt payments below 15% of your take-home pay. This is particularly important if you have a lot of revolving credit, installment credit, or credit card debt. To calculate this amount, you will need a financial calculator. You can find free financial calculators on many Websites or in financial software you may already own. In the following paragraphs are the basics to determine how much you should be paying each month to eliminate your debt by your target date:



Determine how much debt you want to eliminate by the target date - this is the principal (P). For example, suppose you have several credit cards totaling \$10,000 and a student loan balance of \$10,000. If you only want to pay off all the credit cards and half the student loan in three years (you feel you can manage the rest of the student loan later), your principal will be \$15,000.

Determine an interest rate to use. The highest rate from all your loans might be the best one to use, as it will help you calculate your way out of debt faster. Let's say that you have one credit card balance with \$7,000 at 15%, another with \$3,000 at 7%, and the student loan (\$10,000) at 3%. Choosing 15% as the rate (R) will help you calculate payments to most quickly reduce your debt. Of course, you could use a weighted average, but we will leave that for a mathematics textbook to explain.

Set the term (N) as the number of months or years to achieve your goal. In our example, we are using three years or 36 months.

When you plug these numbers into a financial calculator, you will come up with a monthly payment (PMT) equal to approximately \$520. This is the number you should use to get out of debt in the time you set as a goal. All you need to do now is to allocate how much of the payment should go toward each of the loans you are paying off. The best way to allocate the payment is to pay off the highest-interest-rate loans faster than the lower-rate loans. In our example, we might allocate the largest amount to the 15% credit card, with lower amounts to the others.

If your calculated payment is still more than you can afford, you will need to consider refinancing methods. However, if this works for you, why not continue to make those larger monthly payments to your savings and investment plans after your debt is gone? This will help you stay out of debt.