

Strategic Spending in the New Economy

By Dara Duguay, Director of Citi's Office of Financial Education and author of *The Citi Commonsense Money Guide for Real People*

It is hard not to be surrounded nowadays by media messages about the imminent or actual recession (depending on who is delivering the message). Forecasts of doom and dire predictions of continued economic strife are rampant. These messages have caused even the most prudent money manager to take a second look at how they are managing their money and if they can make some adjustments to prepare themselves for these tough economic times.

Whether your financial situation is actually dire or you are just experiencing general anxiety, it can never hurt to take an honest look at your finances and see if there are things you can do to improve your situation. Here are nine steps to riding out our uncertain economic climate:

1. Realize that the past rules regarding the acquisition of credit have changed. In the past you may not have encountered difficulty in obtaining credit but you may be surprised to learn that the standards have become tighter. Most of the lenders are now requiring an excellent credit history in order to be approved. Therefore, late payments and any other negative marks on your credit report may make it difficult if not impossible to get access to credit.
2. Figure out your debt level. If you don't know how much debt you can handle, it is easy to get in over your head. Keep your monthly consumer debt payments down to around 10- 15 percent of your total net income. This includes payments on credit cards, student loan, car and other

Strategic Spending in the New Economy

personal loans- but not first mortgages. If you are above this percentage, you should endeavor to lower your debt level before it gets out of control.

3. Track your expenses. This can be tedious but unless you know where your money is going, it will be impossible to plug the leaks. After a month, review your expenses carefully and then evaluate them. An obvious first place to cut would be services or products that you don't use or can stretch between uses, like visits to the beauty salon, car washes, dry cleaning, health club memberships, or book-of-the-month clubs.
4. Don't make excuses. Many people when asked to give things up tend to resist and come up with all kinds of reasons that start with "yes, but":
 - I'd give up my mobile phone but what if my car breaks down?
 - I'd give up my health club membership but then I'll get fat
 - I'd give up my dog but then I'll be lonely
 - I'd give up my maid service but I don't have time to clean
 - I'd give up smoking but then I'll gain weight
 - I'd give up manicures but I need to look professional for my job
 - I'd give up buying lottery tickets but what if I won a million dollars?

These excuses and a million more can justify almost any expense remaining intact.

5. Continue to contribute to your retirement account. Many people think it is better to stop having a portion of their paycheck sent to their company 401k or similar retirement plan during a down stock market. However, when most people stop contributing, rarely do they start again. It is

Strategic Spending in the New Economy

important to keep up the savings and investing habit. Actually the best time to invest is when prices are the lowest. The important thing is to keep a long-term outlook and talk to your financial advisor to make sure your portfolio is adequately diversified and your risk at an appropriate level for your mental comfort.

6. If you need cash, withdrawing money from your retirement accounts should be your last resort. Many times people turn first to their retirement accounts as a ready source of cash during tough economic times. However if you take money out before the required retirement age (usually 59 ½) you will- in essence- be throwing away over 50% of your money. The money withdrawn will be taxed as income in addition to being assessed a penalty for early withdrawal.
7. Don't let your insurance lapse. It may be tempting to think that insurance is not a necessity, especially if you haven't had a claim in awhile. However, Murphy's Law shows that just when you've eliminated your insurance is when you need it the most. Life events happen to everyone. No one knows when an illness or auto accident will occur so you need to be prepared. By increasing your deductible you will automatically lower your monthly payments. This will provide monthly budget relief but remember that your out-of-pocket payment will be larger if you have an actual claim.
8. Keep yourself indispensable at your job. By contributing to the bottom line or helping to point out ways for a company to reduce expenses, you

Strategic Spending in the New Economy

will make yourself more valuable to the company. Try to remain positive, especially in a downsizing industry. When people get too depressed, their job performance suffers and they are no longer as indispensable as before.

9. Finally, realize that the economy is in a constant state of flux. The stock market has continually gone up and down throughout its history.

However, the execution of the stock market has always outperformed other savings vehicles over the long-term. So try to start optimistic and upbeat regardless of the “noise” around you.

For more helpful information, go to www.daradollarsmart.com



Personal finance expert, **Dara Duguay**, is author of three popular books, *The Citi Commonsense Money Guide for Real People*, *Please Send Money* and *Don't Spend Your Raise*, and currently director of Citi's Office of Financial Education. Dara also served as executive director of the non-profit Jump\$tart Coalition for Personal Financial Literacy. Her extensive media experience includes: *The NY Times*, *Associated Press*, *LA Times*, *USA Today*, *Money*, *Redbook*, *Self*, CNN, Fox News Channel, Bloomberg, MSNBC, NPR, among others.