

Office for Financial Success – Financial Tip of the Week
A service of the Personal Financial Planning Department
College of Human Environmental Sciences
University of Missouri-Columbia
(05/15/2009)

[Financial Strategies for Today's Economy](#)

Dr. Cynthia Crawford

MU Family Financial Education Specialist

A collection of ideas from leaders in family financial education

Dr. Barbara O'Neill, Rutgers Cooperative Extension, points out, "When the financial news is grim and market indices fluctuate hundreds of points daily, it's real easy to feel that you are helplessly at the mercy of external forces. Research has found that people are especially unhappy in situations where they perceive themselves to have a lack of control."

A recent Wall Street Journal article summarized several studies that found that, when our sense of control is threatened, people tend to latch on to whatever small fragments of information are available and believe that they are reliable. The article concluded, "You cannot control whether or not the market will continue to trash stocks, but you can control how you respond."

What to do? Here are themes from leaders in family finance:

1. **Don't panic.** Sit down in the financial canoe. Decisions based on fear or greed are seldom good decisions.
2. **It's buy low, sell high.** Not the opposite. If you've made investment decisions based on the principles of diversification and matching investments to goals with quality products, do watchful waiting (i.e. do nothing). Until you sell, your losses are on paper only. If you sell, your losses are real. Investments have recently been on sale. It may be time to buy, particularly on pullbacks.
3. **Watch your spending.** In times of economic uncertainty, it's wise to "live below your means" and practice what economists call "precautionary savings." There is some recent evidence that Americans are already doing this on a large scale. Track your spending. You may use financial management software on the computer, develop an Excel spreadsheet or you may want to do it with paper and pencil.
4. **Get busy learning** the principles of financial planning, including saving and investing. Financial markets are less scary the more we know about the characteristics and historical performance of investments. We know from history, for example, that stocks can be very volatile day to day but, over periods of 10 years or longer, volatility is greatly reduced. In times of turbulence and change, knowledge is power!

5. **Tune out negative “noise.”** Monitoring the state and national news morning, noon and night along with the Internet can be too much negative information. Since you’re managing your finances for the long term, it may not be important to monitor the media day-by-day or hour-by-hour. Focus on things you can positively impact – starting in your corner of the world.

6. **Minimize investment expenses.** Especially at times when mutual funds are experiencing paper losses, there is no reason to be earning anything less by having high investment expenses. Expenses, along with historical performance, are a key factor in the selection of a mutual fund. Dr. O’Neill says, “Look for stock mutual funds with an expense ratio below 1.4%.” Others suggest an even tougher standard of 1% or less.

7. **Save money, be happy.** Research has found that people who do things that constitute good planning tend to feel happier than those who don't. Specific practices that made "planners" feel better about life included setting financial goals, saving to achieve goals, and spending within a financial plan. Money in the bank for emergencies is life changing.

8. **Pay off debt.** Power pay on debt – especially any debt with double-digit interest rates. Paying off debt is a form of wealth building. Think twice about taking on new debt. Use your home as a savings account, not an ATM.

9. **Be a survivor at work.** Be the best employee you can be in order to reduce the odds of losing your job. Don’t quit until you have the next job in hand.

10. **Work at an impeccable credit report.** At the time he spoke to MU students and faculty this past fall, Dan Iannicola was an assistant secretary of the treasury. He asserted that a poor credit report can cost a person **\$250,000!** Check your credit report – there’s only one truly free site: www.annualcreditreport.com

Pay your bills on time

Correct any errors on your report

If there is negative, true information – time will heal

The most recent credit history counts more with creditors than older information

11. **You may need to delay retirement** – especially if you were anticipating retiring in the very near future.

12. **Fun is essential!** Spend time on inexpensive activities that bring you pleasure. Turn off the computer and host a pot-luck, break out a board game, play in the toy box with a youngster, be the MU Tigers’ most enthusiastic fan...find some meaningful distractions.

13. **Take Care of Yourself.** The last thing that someone needs in an uncertain economy is health problems, especially if your job (and access to health insurance) is shaky. Put the odds in your favor by taking charge of your health. You will not have financial security without decent health and decent health insurance.

MU Personal Financial Planning Department Chair Rob Weagley concludes, “When we are in the midst of rapid change and uncertainty, we feel like we can’t control what is happening to us. This is often true of financial markets. Given this, we have to invest our time and resources in those items that we can control. In that light, investments in yourself, whether educational, physical, or spiritual are investments that we know have a positive return and, importantly, they are investments that cannot be taken from you. In this economic environment, this might be the best investment we can make and, frankly, it will help prepare you for the better times, as we work our way through the current economic environment.”

Reference list:

- Barbara O'Neill, Ph.D., CFP; Extension Specialist in Financial Resource Management, Rutgers Cooperative Extension.
- Laura Cohn, “What You Need to Know About Financial Stress”, *Kiplinger's Personal Finance* magazine, February 2009, page 84.
- Rob Weagley, Ph.D., CFP; MU Department Chair for Personal Financial Planning.
- Carole Bozworth and Janet LaFon, University of Missouri Extension Family Financial Education Specialists
- Keynote speakers and session presenters at the national meeting of the Association of Financial Counseling and Planning Education, November 2008, Anaheim CA.
- Dan Iannicola, Jr., Deputy Assistant Secretary for Financial Education, speaking to MU students and faculty, Fall 2008.

- Robert O. Weagley, Ph.D., CFP(r)

Chair, Personal Financial Planning

University of Missouri

Columbia, MO 65211

©2009 Office for Financial Success – University of Missouri-Columbia

Tip's Blog Site

<http://mufinancialtip.blogspot.com>

Tip Archive

Free access to weekly financial tips (pdf format)

<http://financialsuccess.missouri.edu/archive.htm>

A primary objective of the MU Office for Financial Success is to provide sound, nonbiased information related to your financial life. Financial products are neither sold nor promoted. Our service is free to MU

students and an inexpensive educational option for non-students. Visit us
(<http://financialsuccess.missouri.edu>) to learn more and/or to schedule an appointment.

SUBSCRIBE/UNSUBSCRIBE:

- Have friends that would like to receive the weekly financial tips?
Email: LISTSERVE@LISTS.MISSOURI.EDU
No Subject
Body: subscribe financialtip your first_name your last_name
 - Want to unsubscribe?
E-mail LISTSERVE@LISTS.MISSOURI.EDU
No Subject
Body: unsubscribe financialtip your first_name your last_name
-

CONTACT INFO:

- WEBSITE: <http://financialsuccess.missouri.edu>
- E-MAIL: financialsuccess@missouri.edu