

MANAGE YOUR MONEY

BUILDING AN EMERGENCY FUND ON A TIGHT BUDGET

Think you're making too little money to save any? You may be selling yourself short. Even on a low income, it is possible to build up a cash cushion for emergencies. But it's not something you can do overnight. It takes planning and patience.

Of course, a key step of saving is to take control of your spending. But you should plan to save even if you have not yet drawn up a budget. Setting a saving goal can help motivate your cost-cutting task. When you commit to put money aside, you have one more good reason to watch your pennies.

So what should that savings goal be? How much is the right amount for an emergency fund? Here are some tips to help you make a saving plan that works for you.

SET GOALS YOU CAN REACH

Most financial planners say you should have an emergency fund to cover at least 3 months of your normal earnings. This is your cash "cushion" for unpleasant surprises—losing a job, sickness or injury, major car repairs, and the like. For many people, whatever their income, saving that much is easier said than done. One problem is that it takes time. If you're on a low, fixed income and can set aside 10 percent of that money each month, you're a good saver. But even at this rate, it will take you 2.5 years to get 3 months of cash flow in the bank.

That can be discouraging. You are less likely to give up if you break it up into small, achievable bites. "I'm a big fan of starting small and having some successes," says Jerry Love, a certified public accountant in Abilene, TX.

Love suggests saving at first for rare but large expenses. If you know you'll get a \$600 bill for car insurance a year from now, set aside \$50 a month for it starting now. Then add a monthly amount to cover next year's holiday shopping. If you can handle 3 or 4 items like these, you're close to saving a month's income. You have a cushion that can come in handy, and you have also developed a saving habit.

BUILD A MOAT ON ALL SIDES OF YOUR SAVINGS

Your emergency funds have to be on hand when you need it. So don't put it in any investment, like stocks, that can lose value. But you don't want the money to be too close by. It's only for emergencies, after all. If you don't separate it from your checking or debit-card account, the temptation to spend it will be too great.

Think about those old-fashioned piggy banks—the ones you had to break to get at your money. They were designed to make saving easy and spending a little harder. Your own savings vehicle should work the same way. It needs to be set apart from the account you use for everyday spending. But it may still be too easy to tap. Cathi Brese Doeblér, author of *Ditch the Joneses: Discover Your Family*, says you should think about saving at some other institution, such as a credit union. If it is in some other town and you need to make withdrawals by mail, so much the better. "A savings account at a local bank is easy to get to," she says, and in this case that's not an advantage.

Shopping around for savings vehicles can also pay off in better rates of return. The more interest you get, the more you are being rewarded for saving. Try to find an institution that pays higher interest for larger balances. This also rewards you for saving more.

One more way to build a moat around your money is to have someone else, such as an employer, put money directly into your savings account. Love says many companies now do this. If you are working, find out if a share of each paycheck can be sent to savings, with the rest going to your checking account.

This is a good way to “pay yourself first.” Once the system is set up, saving just happens. You don’t have to do anything more. If you are getting payments from a government program, check to see if a similar service is available.

PAY DOWN DEBT, BUT KEEP THE CUSHION GROWING

It gets harder to save if you’re trying to pay down debt at the same time. Credit cards charge high interest, so it’s good to pay them down as soon as you can. But if you have cash for emergencies, you can avoid using the plastic so it’s best to do both. Build the cash cushion while reducing debt. Split your money between the two. If you make weekly deposits to your savings, Doeblner says, you might redirect one of these each month toward paying off credit cards. If you have more than one card, Love advises paying off the one with the smallest balance first.

Sources: Cathi Brese Doeblner; Jerry Love, CPA

By Tom Gray

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HEART DISEASE AND ITS EFFECT ON THE FAMILY

Take the case of a family whose father, the primary breadwinner, has a severe heart attack and cannot go back to his old job. His wife may take on a new role as a full-time wage-earner outside the home. If she already was working outside the home, she will be under greater pressure to keep up the family income. Her absence from the home may force children into the role of caregivers for their father.

For mothers who have been working outside the home, heart disease can have the same impact on family income and put other members under the same kind of pressure. Women heart patients often suffer added anxiety over familial and caretaking concerns, such as, “Who will take care of my house and my husband?” and “How will he manage without me?”

Also, those who live with a heart patient need to be ready for changes in the patient’s emotional state. Heart patients are suddenly dealing with anxiety and may slip into depression. They tend to have little tolerance for noise and other disturbances. Children who were used to roughhousing with Dad have to realize that such play is over for now (and that this is not their fault).

Experts say communication is the key to keeping families emotionally healthy. Everyone needs to talk honestly about what they’re feeling. No one, including children, should be left out of the loop. Children tend to blame themselves when their parents fall ill, so the real nature of the disease, and its causes, should be made clear to them.

Talking things out not only can defuse sources of stress; it also promotes the intimacy and emotional support that heart patients need. A Duke University study of hospitalized heart disease patients showed that those with strong support from family and friends (as revealed on questionnaires) were less likely to be depressed one month after leaving the hospital than were those who had weak support. Other studies have shown that depression greatly increases the chance of recurring heart disease and early death.

Source: Center for the Advancement of Health; Herbert N. Budnick, PhD

By Tom Gray

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NINE THINGS TO CONSIDER BEFORE MAKING INVESTING DECISIONS

Given recent market events, you may be wondering whether you should make changes to your investment portfolio. While we can't tell you how to manage your investment portfolio during a volatile market, this article can give you the tools to make an informed decision. Before you make any decision, consider these areas of importance:

1. DRAW A PERSONAL FINANCIAL ROADMAP.

Before you make any investing decision, sit down and take an honest look at your entire financial situation — especially if you've never made a financial plan before. The first step to successful investing is figuring out your goals and risk tolerance — either on your own or with the help of a financial professional. There is no guarantee that you'll make money from your investments. But if you get the facts about saving and investing and follow through with an intelligent plan, you should be able to gain financial security over the years and enjoy the benefits of managing your money.

2. EVALUATE YOUR COMFORT ZONE IN TAKING ON RISK.

All investments involve some degree of risk. If you intend to purchase securities — such as stocks, bonds or mutual funds — it's important that you understand before you invest that you could lose some or all of your money. Unlike deposits at FDIC-insured banks and National Credit Union Administration-insured credit unions, the money you invest in securities typically is not federally insured. You could lose your principal, which is the amount you've invested. That's true even if you purchase your investments through a bank.

The reward for taking on risk is the potential for a greater investment return. If you have a financial goal with a long-time horizon, you are likely to make more money by carefully investing in asset categories with greater risk, like stocks or bonds, rather than restricting your investments to assets with less risk, like cash equivalents. On the other hand, investing solely in cash investments may be appropriate for short-term financial goals. The principal concern for individuals investing in cash equivalents is inflation risk, which is the risk that inflation will outpace and erode returns over time.

3. CONSIDER AN APPROPRIATE MIX OF INVESTMENTS.

By including asset categories with investment returns that move up and down under different market conditions within a portfolio, an investor can help protect against significant losses. Historically, the returns of the 3 major asset categories — stocks, bonds and cash — have not moved up and down at the same time. Market conditions that cause 1 asset category to do well often cause another asset category to have average or poor returns. By investing in more than 1 asset category, you'll reduce the risk that you'll lose money and your portfolio's overall investment returns will have a smoother ride. If 1 asset category's investment return falls, you'll be in a position to counteract your losses in that asset category with better investment returns in another asset category.

In addition, asset allocation is important because it has major impact on whether you will meet your financial goal. If you don't include enough risk in your portfolio, your investments may not earn a large enough return to meet your goal. For example, if you are saving for a long-term goal, such as retirement or college, most financial experts agree that you will likely need to include at least some stock or stock mutual funds in your portfolio.

4. BE CAREFUL IF INVESTING HEAVILY IN SHARES OF ANY INDIVIDUAL STOCK.

One of the most important ways to lessen the risks of investing is to diversify your investments. It's common sense: Don't put all your eggs in 1 basket. By picking the right group of investments within an asset category, you may be able to limit your losses and reduce the fluctuations of investment returns without sacrificing too much potential gain.

5. CREATE AND MAINTAIN AN EMERGENCY FUND.

Most smart investors put enough money in a savings product to cover an emergency, like sudden unemployment. Some

make sure they have up to 6 months of their income in savings so that they know it will absolutely be there for them when they need it.

6. PAY OFF HIGH-INTEREST CREDIT CARD DEBT.

There is no investment strategy anywhere that pays off as well as, or with less risk than, merely paying off all high-interest debt you may have. If you owe money on high-interest credit cards, the wisest thing you can do under any market conditions is to pay off the balance in full as quickly as possible.

7. CONSIDER DOLLAR COST AVERAGING.

Through the investment strategy known as “dollar cost averaging,” you can protect yourself from the risk of investing all of your money at the wrong time by following a consistent pattern of adding new money to your investment over a long period of time. By making regular investments with the same amount of money each time, you will buy more of an investment when its price is low and less of the investment when its price is high. Individuals that typically make a lump-sum contribution to an individual retirement account either at the end of the calendar year or in early April may want to consider “dollar cost averaging” as an investment strategy, especially in a volatile market.

8. CONSIDER OCCASIONALLY REBALANCING YOUR PORTFOLIO.

Rebalancing is bringing your portfolio back to your original asset allocation mix. By rebalancing, you'll ensure that your portfolio does not overemphasize 1 or more asset categories, and you'll return your portfolio to a comfortable level of risk.

You can rebalance your portfolio based either on the calendar or on your investments. Many financial experts recommend that investors rebalance their portfolios on a regular time interval, such as every 6 or 12 months. The advantage of this method is that the calendar is a reminder of when you should consider rebalancing. Others recommend rebalancing only when the relative weight of an asset class increases or decreases more than a certain percentage that you've identified in advance. The advantage of this method is that your investments tell you when to rebalance. In either case, rebalancing tends to work best when done on a relatively infrequent basis.

9. AVOID CIRCUMSTANCES THAT CAN LEAD TO FRAUD.

Scam artists read the headlines, too. Often, they'll use a highly publicized news item to lure potential investors and make their “opportunity” sound more legitimate. Ask questions and check out the answers with an unbiased source before you invest. Always take your time and talk to trusted friends and family members before investing.

Source: U.S. Securities and Exchange Commission

MARRIAGE AND FINANCE: COPING WITH FINANCIAL DIFFERENCES

Each morning Richard stops on his way to work for a cappuccino, which wife Dana complains is a waste of money. “It’s a lousy \$3, and it makes my morning commute bearable,” says Richard. But Dana argues that Richard’s morning ritual isn’t “cheap,” costing the family more than \$750 a year.

Like Richard and Dana, most married couples don’t always see eye to eye on money matters. But financial differences can put your marriage at risk if you and your spouse are unable to resolve the big issues and tolerate the smaller ones.

CONSIDER MONEY ATTITUDES

Attitudes about money develop over time and are often a product of personal experience. Dana’s parents always struggled to make ends meet, and consequently, Dana finds it hard to part with money for things “not in the budget.” Richard’s father died in his early 40s. “He stashed away money for a ‘someday’ that never came,” says Richard. “I won’t let that

happen to me.”

Richard and Dana's situation illustrates an important point to keep in mind when you work together to identify financial goals or when conflict occurs: A person's spending and saving habits are not a question of right or wrong.

IDENTIFY FINANCIAL GOALS; MAKE A PLAN

You and your spouse share many of the same values. Your financial goals should reflect these mutual values. Dana and Richard agree that parenting, religion and financial security are their top priorities, from which they identified some specific and measurable financial goals: paying for their children's college tuition and expenses and retiring at age 60. These financial goals act as a frame of reference for building the family's budget and making spending decisions.

You, too, should discuss your priorities, identify financial goals from these priorities and develop a plan to meet these goals. Make sure to look at the long term, not just 5 or 10 years down the road. If you and your spouse can agree to the big issues, occasional disagreements are unlikely to derail your financial future or your marriage.

WORK AS A TEAM

When only one partner is in control of the family finances, marital problems are likely to occur. You and your partner need to work as a team, having equal say when it comes to financial planning and major decision-making and equal access to your money and financial information. Of course, day-to-day money management is often more easily handled by one person. But both of you should be familiar with your financial picture and talk regularly to avoid misunderstanding.

ADDRESS CONFLICT

When disagreements over money occur, keep these conflict resolution tips in mind:

- **Cool off.** Don't attack your spouse while waiting in line at the store. Find an appropriate time to address the issue.
- **Put yourself in your spouse's shoes to identify the underlying reasons for your spouse's behavior or actions.**
- **Speak from the heart.** Explain how your spouse's actions make you feel (e.g., worried, insecure, uninvolved).
- **Be flexible to work out a compromise.** For example, Dana and Richard agreed to a set amount per month that each can spend with no questions asked. Richard is likely to spend his on cappuccino.

Sources: *Married for Better, Not Worse: The Fourteen Secrets to a Happy Marriage* by Gary Lundberg and Joy Lundberg. Penguin Group, 2002; *Smart Couples Finish Rich: 9 Steps to Creating a Rich Future for You and Your Spouse* by David Bach. Crown Publishing Group, 2002.

By Christine P. Martin

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KNEE DEEP IN DEBT

Having trouble paying your bills? Getting dunning notices from creditors? Are your accounts being turned over to debt collectors? Are you worried about losing your home or your car?

You're not alone. Many people face a financial crisis some time in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or overspending, it can seem overwhelming. But often, it can be overcome. Your financial situation doesn't have to go from bad to worse.

SELF-HELP

Developing a budget: The first step toward taking control of your financial situation is to do a realistic assessment of how much money you take in and how much money you spend. Start by listing your income from all sources. Then, list your “fixed» expenses — those that are the same each month — like mortgage payments or rent, car payments, and insurance premiums. Next, list the expenses that vary — like entertainment, recreation, and clothing. Writing down all your expenses, even those that seem insignificant, is a helpful way to track your spending patterns, identify necessary expenses, and prioritize the rest. The goal is to make sure you can make ends meet on the basics: housing, food, health care, insurance, and education.

Your public library and bookstores have information about budgeting and money management techniques. In addition, computer software programs can be useful tools for developing and maintaining a budget, balancing your checkbook, and creating plans to save money and pay down your debt.

Contacting your creditors: Contact your creditors immediately if you’re having trouble making ends meet. Tell them why it’s difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don’t wait until your accounts have been turned over to a debt collector. At that point, your creditors have given up on you.

Dealing with debt collectors: The Fair Debt Collection Practices Act is the federal law that dictates how and when a debt collector may contact you. A debt collector may not call you before 8 a.m., after 9 p.m., or while you’re at work if the collector knows that your employer doesn’t approve of the calls. Collectors may not harass you, lie, or use unfair practices when they try to collect a debt. And they must honor a written request from you to stop further contact.

Managing your auto and home loans: Your debts can be unsecured or secured. Secured debts usually are tied to an asset, like your car for a car loan, or your house for a mortgage. If you stop making payments, lenders can repossess your car or foreclose on your house. Unsecured debts are not tied to any asset, and include most credit card debt, bills for medical care, signature loans, and debts for other types of services.

Most automobile financing agreements allow a creditor to repossess your car any time you’re in default. No notice is required. If your car is repossessed, you may have to pay the balance due on the loan, as well as towing and storage costs, to get it back. If you can’t do this, the creditor may sell the car. If you see default approaching, you may be better off selling the car yourself and paying off the debt: You’ll avoid the added costs of repossession and a negative entry on your credit report.

If you fall behind on your mortgage, contact your lender immediately to avoid foreclosure. Most lenders are willing to work with you if they believe you’re acting in good faith and the situation is temporary. Some lenders may reduce or suspend your payments for a short time. When you resume regular payments, though, you may have to pay an additional amount toward the past due total. Other lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly debt. Ask whether additional fees would be assessed for these changes, and calculate how much they total in the long term.

If you and your lender cannot work out a plan, contact a housing counseling agency. Some agencies limit their counseling services to homeowners with FHA mortgages, but many offer free help to any homeowner who’s having trouble making mortgage payments. Call the local office of the Department of Housing and Urban Development or the housing authority in your state, city, or county for help in finding a legitimate housing counseling agency near you

DEBT RELIEF SERVICES

Credit counseling: If you’re not disciplined enough to create a workable budget and stick to it, can’t work out a repayment plan with your creditors, or can’t keep track of mounting bills, consider contacting a credit counseling organization. Many credit counseling organizations are nonprofit and work with you to solve your financial problems. But be aware that, just because an organization says it’s “nonprofit,” there’s no guarantee that its services are free, affordable, or even legitimate. In fact, some credit counseling organizations charge high fees, which may be hidden, or

urge consumers to make “voluntary” contributions that can cause more debt.

Most credit counselors offer services through local offices, the Internet, or on the telephone. If possible, find an organization that offers in-person counseling. Many universities, military bases, credit unions, housing authorities, and branches of the U.S. Cooperative Extension Service operate nonprofit credit counseling programs. Your financial institution, local consumer protection agency, and friends and family also may be good sources of information and referrals.

Reputable credit counseling organizations can advise you on managing your money and debts, help you develop a budget, and offer free educational materials and workshops. Their counselors are certified and trained in the areas of consumer credit, money and debt management, and budgeting. Counselors discuss your entire financial situation with you, and help you develop a personalized plan to solve your money problems. An initial counseling session typically lasts an hour, with an offer of follow-up sessions.

Debt management plans: If your financial problems stem from too much debt or your inability to repay your debts, a credit counseling agency may recommend that you enroll in a debt management plan (DMP). A DMP alone is not credit counseling, and DMPs are not for everyone. You should sign up for one of these plans only after a certified credit counselor has spent time thoroughly reviewing your financial situation, and has offered you customized advice on managing your money. Even if a DMP is appropriate for you, a reputable credit counseling organization still can help you create a budget and teach you money management skills.

In a DMP, you deposit money each month with the credit counseling organization, which uses your deposits to pay your unsecured debts, like your credit card bills, student loans, and medical bills, according to a payment schedule the counselor develops with you and your creditors. Your creditors may agree to lower your interest rates or waive certain fees, but check with all your creditors to be sure they offer the concessions that a credit counseling organization describes to you. A successful DMP requires you to make regular, timely payments, and could take 48 months or more to complete. Ask the credit counselor to estimate how long it will take for you to complete the plan. You may have to agree not to apply for—or use—any additional credit while you’re participating in the plan.

PROTECT YOURSELF

Be wary of any debt relief organizations that:

- charges high up-front or monthly fees for enrolling in credit counseling or a DMP
- pressures you to make “voluntary contributions,” another name for fees
- touts a “new government program” to bail out personal credit card debt
- guarantees it can make your unsecured debt go away
- tells you to stop communicating with your creditors
- tells you it can stop all debt collection calls and lawsuits
- guarantees that your unsecured debts can be paid off for just pennies on the dollar
- won’t send you free information about the services it provides without requiring you to provide personal financial information, such as credit card account numbers, and balances
- tries to enroll you in a DMP without spending time reviewing your financial situation
- offers to enroll you in a DMP without teaching you budgeting and money management skills
- demands that you make payments into a DMP before your creditors have accepted you into the program

DEBT CONSOLIDATION

You may be able to lower your cost of credit by consolidating your debt through a second mortgage or a home equity line of credit. Remember that these loans require you to put up your home as collateral. If you can’t make the payments — or if your payments are late — you could lose your home.

What's more, the costs of consolidation loans can add up. In addition to interest on the loans, you may have to pay "points," with one point equal to one percent of the amount you borrow. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.

BANKRUPTCY

Personal bankruptcy generally is considered the debt management option of last resort because the results are long-lasting and far reaching. People who follow the bankruptcy rules receive a discharge — a court order that says they don't have to repay certain debts. However, bankruptcy information (both the date of your filing and the later date of discharge) stay on your credit report for 10 years, and can make it difficult to obtain credit, buy a home, get life insurance, or sometimes get a job. Still, bankruptcy is a legal procedure that offers a fresh start for people who have gotten into financial difficulty and can't satisfy their debts.

DAMAGE CONTROL

Turning to a business that offers help in solving debt problems may seem like a reasonable solution when your bills become unmanageable. But before you do business with any company, check it out with your state Attorney General, local consumer protection agency, and the Better Business Bureau. They can tell you if any consumer complaints are on file about the firm you're considering doing business with. Ask your state Attorney General if the company is required to be licensed to work in your state and, if so, whether it is.

Some businesses that offer to help you with your debt problems may charge high fees and fail to follow through on the services they sell. Others may misrepresent the terms of a debt consolidation loan, failing to explain certain costs or mention that you're signing over your home as collateral. Businesses advertising voluntary debt reorganization plans may not explain that the plan is a bankruptcy filing, tell you everything that's involved, or help you through what can be a long and complex process.

In addition, some companies guarantee you a loan if you pay a fee in advance. The fee may range from \$100 to several hundred dollars. Resist the temptation to follow up on these advance-fee loan guarantees. They may be illegal. It is true that many legitimate creditors offer extensions of credit through telemarketing and require an application or appraisal fee in advance. But legitimate creditors never guarantee that the consumer will get the loan — or even represent that a loan is likely. Under the federal Telemarketing Sales Rule, a seller or telemarketer who guarantees or represents a high likelihood of your getting a loan or some other extension of credit may not ask for or accept payment until you've received the loan.

You should be cautious of claims from so-called credit repair clinics. Many companies appeal to consumers with poor credit histories, promising to clean up credit reports for a fee. But you already have the right to have any inaccurate information in your file corrected. And a credit repair clinic cannot have accurate information removed from your credit report, despite their promises. You also should know that federal and some state laws prohibit these companies from charging you for their services until the services are fully performed. Only time and a conscientious effort to repay your debts will improve your credit report.

If you're thinking about getting help to stabilize your financial situation, do some homework first. Find out what services a business provides and what it costs, and don't rely on verbal promises. Get everything in writing, and read your contracts carefully.

Source: Adapted from the Federal Trade Commission

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