

when the bad times end, remember the bad times



As the economy tanked, taking a big toll on jobs, home values, and investment balances, millions of us adjusted our financial habits to help us weather the crisis.

We kept a close eye on what we spent, saved more money, and whittled down our credit card and home equity debts, among other strategies.

But as the recession ebbs, the same good habits that helped stave off financial disaster can help you build a future of financial strength.

So as those black clouds drift off into the distance . . .

keep on saving—automatically

During the first 11 months of 2009 Americans saved about 4.6% of their disposable income, almost twice as much as they saved in 2008.*

Increased savings, though, can be hard to maintain when the economy turns around. Consider, then, putting your savings on autopilot. For example:

- If you haven't been contributing to your employer's retirement savings plan, arrange for automatic deductions from your paycheck.
- Already contributing to your employer's plan? Consider increasing, by one or two percentage points, the amount you're contributing.
- Consider having your savings rate automatically increase every year, if your employer's plan allows.

rebuild your emergency fund

Did an emergency fund help you meet unexpected expenses during the recession?

Consider rebuilding that fund, putting enough into it to meet three to six months' worth of expenses.

If you have finished paying off a loan or credit card, continue to write a check in the amount of the monthly payment—and deposit it into your emergency fund.

If you received a raise, why not devote the extra cash toward savings?

Or if you receive a tax refund, consider devoting at least half the money to savings, if your circumstances allow.

keep credit under control

As a way of grappling with the recession, many of us curtailed our use of credit cards in 2009. In September, for example, Visa reported that the use of its credit cards had dropped by 10% in August. This on top of a 9% drop in July.

You can continue to reduce your dependence on credit cards by:

- Keeping just one credit card in your wallet.
- Paying off your bill every month, rather than just paying the minimum.

- Using a debit card, cash, or checks to pay for your purchases if you are carrying an unpaid balance on your credit card.

keep your cool as an investor

When the stock markets seem to be skyrocketing, the temptation to jump in and invest in the latest hot stocks or funds can be great. That approach, though, increases the risk that you could be participating in the next bubble waiting to collapse.

The better approach is to consider developing an investment plan with which you can be comfortable. Such a plan could include:

- Deciding on a mix of stocks, bonds, and short-term reserves that is right for your stage in life and your tolerance for risk.
- Checking your plan account once a year to determine whether market fluctuations have moved your mix away from where you want it.
- Considering rebalancing your portfolio if the mix has changed by 5% or more.

don't use your home as an ATM

During the years before the recession, many homeowners borrowed against their homes to finance their spending.

In fact, by March 2008 homeowners had taken out \$1.1 trillion in home equity loans, according to The New York Times.

When the recession struck, sending housing prices down, millions of Americans found themselves owing more money on their houses than the houses were worth.

The lesson? A home is a place to live, not an automated teller machine. If you have a home equity loan, create a plan to pay down the balance. If you have a home equity line of credit, don't tap it except for permanent home improvements or repairs that could maintain or increase the value of your real estate.

keep on budgeting

There's nothing like a recession to concentrate our minds on managing our money to survive financially until better times come along.

During economic downturns when there is less money coming in, keeping a budget can help you determine where money is leaking out of your wallet and where you can cut back on expenses.

In better times when your household income has stabilized or even increased, a budget can help you find the money you need to save for retirement, college, and even that getaway vacation you may have postponed when times were tough.

*Source: U.S. Department of Commerce Bureau of Economic Analysis. All investing is subject to risk. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in such a fund