



New Attitudes about Money After 2008

Housing market collapse...stock market meltdown...trillions of dollars vanished.

What just happened?

It's a crisis long in the making. Loose lending standards have made it easy to live beyond our means, but the buy now, pay later mentality exacts a terrible toll.

Today, the U.S. personal savings rate currently hovers near zero, down from 7% over the past three decades. Average household credit card debt is more than \$8500 and carries an average interest rate of just over 13% - a burden that will take a family 19.5 years to escape if they pay it down at a rate of \$200 per month.

It's clear that we need to change our ways. We may no longer even have a choice in the matter - defaults are up; loans are hard to come by, and the economy is sputtering. The 2008 financial crash was a game changer, but there's no need to despair. It's simply time to apply a new set of rules.

Old Rule: Buy now, worry later.
New Rule: Save for big purchases.

Many people don't hesitate to finance big ticket items, but they might think differently if they considered the hidden costs.

Think about this: Buying a \$20,000 car with \$3000 down at 7% interest over 60 months costs you an additional \$3,197 in interest. That's money you could invest or use to pay down current debt.

Saving first for expensive items before you go shopping not only keeps costs down, it

also forces you to be realistic about what you can afford. This is what people used to do. It's what our parents did. It's time to bring this idea back home.

Old Rule: Buy a BIG house.
New Rule: Buy the size house needed.

Prior to the housing market collapse, home buyers were encouraged to view their homes as investments. While home ownership provides both diversification and a hedge against inflation, the fact is that historical home appreciation yields a relatively modest return of around 5% per year before factoring the cost of upkeep, heating and cooling, taxation and interest expense. And the more you buy, the higher these costs will be.

Buying smaller and cheaper will help your cash flow and give you greater financial flexibility.

Old Rule: Invest only in U.S. stocks.
New Rule: Diversify internationally.

While the United States remains the economic power in the world, countries like China, India, and Brazil are on the rise. Adding international exposure to your portfolio provides diversification and protection from a downturn in the U.S. economy.

Today it's easier than ever to invest globally by buying mutual funds, ETFs or index funds that focus on specific regions.

Old rule: Use home equity line to borrow for emergencies.
New rule: Put aside 6-8 months cash for unexpected events.

Tighter lending standards and lower home values mean you may no longer be able to qualify for a home equity loan. Look at it as an opportunity to break your reliance on

borrowing, and start building an emergency fund. Having a substantial sum of cash stashed away gives you greater freedom, flexibility and peace of mind.

Old rule: Put it on plastic.
New Rule: Pay with cash.

Using a credit card will cost you even if you don't carry a balance. Studies show consumers spend 8-12% less when they pay for cash. That's a better return than any credit card rewards you'll receive by using plastic!

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