Five Strategies For Surviving Tough Times

by Lisa Smith (Contact Author | Biography)

When economic times turn tough, governments urge their citizens to spend. Economists think of citizens as "consumers" and rely on them to put their "disposable income" to work. By doing this they will support the economy, which translates into higher stock prices.

However, in times like early 2008, when consumers were reeling from the perfect storm of inflation, a global credit crunch, a global housing market in decline and concerns about stagflation, there is often a conflict with the governmental cry for consumers to spend. It's a bewildering scenario. What's the best course of action for a concerned consumer to take? The following five strategies provide a road map for surviving economic downturns. (To read more about 2007's mortgage meltdown, see our Subprime Mortgage special feature.)

1. Don't buy what you can't afford.

We all want that designer sweater, leather handbag, or cute sports car, but most of us just can't afford to make the purchases. There's a simple solution to this dilemma. If you can't afford it, don't buy it. This is often the easiest point to understand, but it is one of the hardest to implement when all those goodies are staring you in the face and all your credit companies are telling you it's OK.

2. If you can't pay cash, you probably can't afford it.

In our credit crazy world, amassing debt no longer carries a social stigma. Everybody has a car payment, a house payment and credit card payments. Well, remember what your mother said about everybody jumping off of a bridge? Just because "everybody" is doing it, doesn't make it a good idea. Buying something you can't afford now, especially when the economy is unsettled, can double the pain of paying later. For example, if you purchase a $450,000 home today and the market goes into a slump and devalues your home by $200,000, you will be paying the bank twice what the home has come to be worth. Just because it was easy to get the credit to buy that home, doesn't mean it was the right time for you to buy in.

3. Paying interest on anything makes somebody else rich.

When you pay interest on a purchase, you are overpaying for that item for the luxury of getting to use it now. The simple act of paying interest means that the price you are paying to make the purchase is greater than the sale price of the item. You are giving away even more of your hard-earned money in order to own that item than the manufacturer thought the item was worth. For example, if you buy a car for $25,000 with a loan at 7% interest for five years, in the end, you will pay almost $30,000 for the car. Once you factor in depreciation, you're left with a very cheap car that cost you thousands more than it should have.

4. If you are in debt, stop spending money.

Sometimes, such as when purchasing a home, the cost of the item is so great that you simply cannot afford to pay cash. This should be the exception rather than the rule. When it cannot be avoided, you need to close your purse and stop spending. Getting yourself further it debt doesn't help your financial situation. Making a realistic budget in this case is the key to success. Once you know how much you're actually spending on those daily trips to the grocery store and coffee shop, you'll be able to find room to cut costs realistically. (Keep reading about the benefits of budgets in *Six Months To A Better Budget* and *The Beauty Of Budgeting*.)

5. Don't count on somebody else to save you.
In times of economic uncertainty, people often think the government will be able to help them, but unfortunately this is often the time when the government has the least amount of money and freedom to help its own citizens. In most cases, the government won't save you, so you'll have to save yourself.

When the economy is in a downturn, you can't just look at what you are spending, you also need to look at where the money is coming from. Your employer is facing the same difficulties you are: trying to make bill payments, balancing the flow of capital, all while sales are slowing. Just like you, your employer will be looking to reduce its costs, which could be in the form of layoffs. You could be in big trouble if you haven't planned for this possibility.

The plan here is to start saving now for that eventual rainy day, and prepare an emergency fund for yourself. If it is too late to start saving and you already need the money, many financial institutions will let you defer a payment or two if you prove you have a smart financial plan to eventually pull through. (To keep reading about emergency funds, see *Build Yourself An Emergency Fund* and *Are You Living Too Close To The Edge?*)

When People Don't Spend
But wait! If we're all hanging on to our money rather than feeding the economy, what will happen? Will stock prices plummet? Will economic growth grind to a halt? Will we all be poor? No. For a real world example of this, let's take a look at Japan, where saving more than consuming has been commonplace in its people's history.

While being a net lender is a concept that the West abandoned some time after World War II, it continued to be practiced in Japan. During the mid-1970s, Reuters reports that Japanese consumers saved some 20% of their disposable incomes. During Japan's economic slump in the 1990s, the Nikkei 225 fell from a peak of 39,000 in 1989 to 16,000 in 1992. Gross domestic product growth averaged less than 1% per year, but personal savings remained in the double digits. Although the unemployment rate rose from less than 2.5% in 1990 to just under 5% in 2000, with an average of 3% percent according to the U.S. Department of Labor, it still remained lower than the rate in most industrialized nations. The net result? Japan remained a healthy, vibrant, wealthy country with a poorly performing stock market. If you've got savings and a smart financial plan, a weak market won't break you.

Live Now Like You Face Tough Times
These five strategies work equally well when times are good, so there is no need to wait until you are in trouble to start making smart decisions.

Your lifestyle will be characterized by things you can actually afford, such as a house that won't get repossessed, a car that might not impress the neighbors but will still get you to work and back, and long, restful nights free from financial worries. It might not be the fairytale lifestyle of the rich and famous that corporate marketers having been trying sell you, but at least you won't have to worry about how to keep up on the payments for a lifestyle you can't afford.

If you're still struggling with how to make budgeting and credit work for you, check out our Budgeting 101 and Debt Management special features.

by Lisa Smith, (Contact Author | Biography)