

What To Do Now? Ten Things To Do To Survive The Recession

Randy Vaughn

1 Spend less than you make!

Sounds simple, but we all need to do a better job of discerning between necessities and luxuries. 90% of people buy things they can't afford. Just ask yourself, "Do we really need this now?"

2 Get on a budget!

Budgeting is a lost discipline and one that should be rediscovered. There are several free web sites such as *mint.com*, *quicken.com* and *wesabe.com* that can help you sort out your spending and give you a sense of where you can save money.

3 Reduce your expensive debt.

The first thing we all need to do is pay down our high interest credit card debt. I would do this before saving for retirement or investing in the stock market. Take the money you are saving on cheaper gas and devote the money to your credit cards!

4 Keep putting money in your 403b.

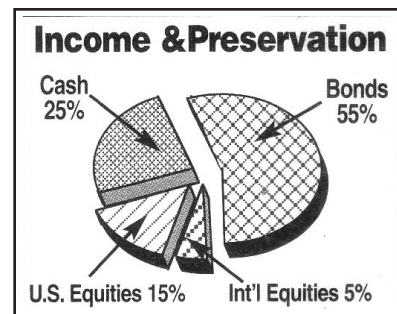
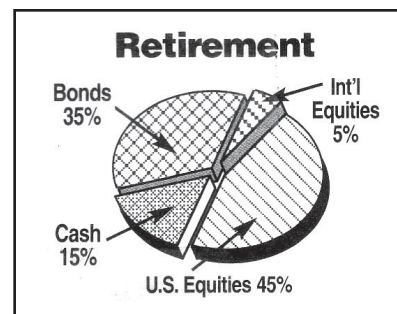
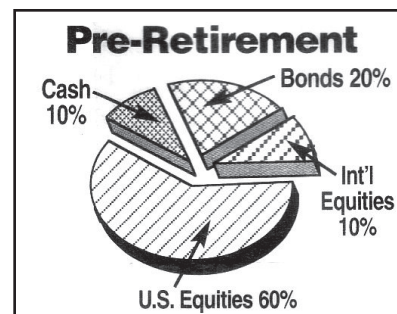
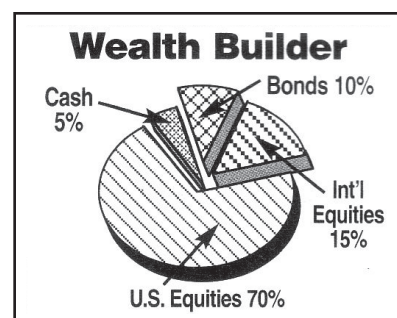
403b is a tax-deferred program for teachers. Yes, even in this recession you need to put money in your retirement account. Ignore the

hype in the financial media and buy the lowest cost index funds from one of the major fund families, like Vanguard, Fidelity, T. Rowe Price and Schwab. *Morningstar*, which is now the standard in mutual fund reporting, shows that index funds regularly beat the majority of their managed competitors. I also like Target Date Retirement Funds. Target Date Funds do the asset allocation automatically as you age and use index funds as their core investment vehicle.

5 Know your tolerance for risk in your retirement account.

When constructing a portfolio, nothing is more important than your asset allocation. If you don't take some risks, you'll only earn savings account returns. Your portfolio should be a mix of different classes of stocks, bonds and cash.

The graphics to the right show my recommendation for Asset Allocation. The charts are taken from the *No-Load Fund Investor Newsletter* by Mark Salzinger.



Wealth Builder is for those in their 20-40s, maybe early 50s Pre-retirement is for 50s and early 60s. Retirement is for late 60s and older. Income & Preservation is for 60 and older or those that are risk adverse.

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6 Be smart and do your homework with annuities.

These products can be loaded with traps and fees, but there are ways to use them to build a pension and salvage your nest egg. Annuities, in general, have never been popular with financial advisors. I like the new immediate annuities that convert a lump-sum payment into lifelong payouts. I am not a big fan of variable annuities because of expensive fees and the best deals are being pulled from the market because of the economy. Annual fees typically total more than 3.5% of the account balance, and the price increases now being pushed by many companies are bringing costs to about 4%. The fees come out of the owner's fund account which means they cut into the investment returns. Because of complex formulas and hidden cost equity, indexed annuities are great for the people who sell them, but are a poor investment choice for the people who purchase them.

7 Consider investing in a 457b plan as opposed to a 403b.

In a 457b there is no penalty for an early withdrawal of assets in the plan prior to age 59 1/2. Another benefit of 457b plans is that they don't have the same unfortunate history as 403b plans. Unlike 403b plans, 457b participants were never relegated to annuities. As a consequence 457b plans include mutual funds as the dominant option. Smart investors may have more of an ability to implement their asset allocation with an appropriate selection of low cost index funds in 457b plans rather than in 403b plans. If your 457b plan offers an array of Low Cost Target Retirement Funds, all the better.

8 We all should have an emergency fund.

This fund should have three to six months worth of living expenses for the inevitable setbacks life sends us—illness, accidents, or if the car breaks down. This

money should be in a high rate savings account or certificates of deposits.

9 Save for your kid's college by using a 529 college-savings plan.

Thanks to recent tax laws changes and reductions in fees, 529 college-savings plans have emerged as the best way for most parents to save. To learn more, read "How Uncle Sam Wants You to Save for College", an article from *msn.money*.

10 Use common sense.

Personal finance, at its heart, boils down to common sense. You have to eliminate your high-cost debt and get on a budget. You must save for retirement, and you need to live within your means. In short, be prudent, save money, invest wisely. Getting back to these very basics will help all of us rebuild our portfolios and live for a better tomorrow.

Part of the material for this article came from:

- *The Smartest 401K Book You'll Ever Read* by Daniel Solin
- *Wall Street Journal* article by Dave Kanas entitled "What Do I Do Now?"
- *Wall Street Journal* article by Anne Tergesen and Leslie Scism entitled "Getting Smart About Annuities"

Randy Vaughn began his music career with the Gattis Junior High Band under the direction of Harold VanWinkle in Clovis, New Mexico. At Clovis High School, his band director was Norvel Howell. Mr. Vaughn is a 1968 graduate of West Texas State University with a Bachelor of Music Education. While at WTSU, his band director and private flute instructor was Dr. Gary Garner. Later in his career, he also received instruction from Eddie Green at the University of Houston. Teaching experiences include positions at Klein High School and Strack Intermediate School (Klein ISD), Hereford High School and Stanton Junior High School (Hereford ISD) and Claude High School (Claude ISD). Mr. Vaughn's bands have been recognized statewide and nationally for their musical excellence.

In 2002, Mr. Vaughn was awarded the Lifetime Meritorious Achievement Award by the TBA. His professional affiliations include TMEA, Phi Beta Mu, TMAA and is a past president of the TBA. Mr. Vaughn retired in 2001 after 34 years in the Texas public schools. He maintains a busy schedule as clinician, guest conductor and adjudicator across the United States.