

CAP Member

Newsletter

EVERY HOUSEHOLD NEEDS ONE

What follows may seem a little like “preaching” to some. It is not meant to be. Rather, it is our thoughts about an almost universal challenge we see our clients struggling with.

American families need to rediscover financial discipline and the savings habit!

Clearly, savings is out, spending is in...especially spending money we don't have. We are debt-laden, cash-strapped, and asset poor. We, the citizens of the most powerful nation on earth, are more financially vulnerable than ever before, literally two paychecks away from bankruptcy.

For all of 2005 the personal savings rate in the U.S. was negative. Collectively, we spent more than we made. This has happened only twice before, in 1932 and 1933, during the depths of the Great Depression. Total consumer debt is 17% of our gross domestic product. That percentage has more than doubled in 11 years. It is 6 times higher than 25 years ago. We have turned our homes into ATMs. Consumers borrowed \$243 billion against their home equity in 2005.

What should you do to avoid financial disaster in your household? More specifically, what should you do first...and right now? As is often the case, the answer is simple, but not easy. It's something we have all heard before, and intuitively know to be true.

We need to pay ourselves first. Every household should have a “rainy day fund” equal to at least 3 months of household expenses. Six months is preferable. Begin small if you must, but begin now.

You might ask, “Shouldn't I try to reduce debt first, or work on other important goals such as saving for retirement or education?” The answer is emphatically no! Until the “rainy day fund” is in place, a relatively minor financial setback can sabotage all other goals and set you back years. The discipline and change of attitude resulting from accomplishing this simple goal will make you more effective tackling other financial goals.

Need help getting started? We can provide specific strategies and moral support. After all, our middle name is savings!