

Take Control in Difficult Times

In addition to real or paper losses on investments, many people have experienced another negative side of the current economic downturn--and that is emotional stress due to perceived loss of control. Research has shown that people are especially unhappy in situations where they perceive themselves to lack control. The good news is there are ways to maintain control in times of economic uncertainty. While no one can control the economy or the stock market, let alone predict the direction they are moving, we can control the ways we think and act. Here are some suggestions:

1. Watch your spending--live below your means and practice what economists call "precautionary savings." There is recent evidence that Americans are already doing this on a large scale--consumer spending is down and according to the Bureau of Economic Analysis, the US savings rate increased to almost 3% of disposable income in the second quarter of 2008, up from 1% or less during the past three years.
2. Prepare a spending plan--a spending plan is a written "best estimate" of the cost of future spending and saving.
3. Tune out market "noise"--people who are experiencing a lack of control put a lot of stock in any information they hear. Daily financial reports that, by design, report moment by moment market fluctuations with commentary feed on market jitters and cause people to panic. Remind yourself that you are investing for the long-term.
4. Take care of yourself--the last thing someone needs in an uncertain economy is health problems, especially if your job and access to health care are shaky. Major health issues such as diabetes and cancer are expensive to treat and can drain household wealth. Put the odds in your favor by taking charge of your health. Specific actions such as losing weight, exercising regularly and quitting smoking provide many associated financial benefits.

Yes, the economy and financial markets seem out of control today, but the best remedy for economic uncertainty is controlling things we can. Numerous studies have confirmed that people who maintain some measure of control over their lives in times of crisis and uncertainty generally cope better and feel less powerless than those who don't. Making plans, and revising them when needed, is also a characteristic of financially savvy people. Abraham Lincoln once said "The best way to predict the future is to create it."

(from Robert O. Weagley, Ph.D., University of Missouri)