Staying Economically Healthy

Doing Smart Things in Tough Times

I've been hearing from a lot of scared people lately. The news media have been picking up the slowing trend of the current economy and calling it a recession. As consumers, this freaks people out.

People are worried about losing their cars, their homes and their jobs. They're afraid of what this means for the future and for their family tree.

What I've been saying is this: Scary news simply isn't as scary when you have financial peace.

Let's say Joe has $20,000 in his emergency fund in cash and has no debt. His house is paid off and he has half a million dollars in mutual funds. Robert, on the other hand has a mortgage for a house he can't afford, a loan on a car he never should have bought and credit card debt coming out of his ears.

See the difference? Robert is at the mercy of the economy because nothing he owns is actually his. His home, his car and all his stuff is owned by creditors. He has no savings and is living month to month. How twisted up would he be if the economy was to go south?

The point is that it is possible to recession-proof yourself. You can ensure that you will prosper no matter what the economy is up to. If you're debt-free, there's really no reason to be scared.

I'm calm because I don't have any debt! When the news is scary but you have a house that is paid for, money in the bank and a few bucks in your mutual funds, you're not scared. And that's where I want you to be.

Feeling secure definitely isn't normal right now, but that doesn't mean it's impossible.

Everyone needs a written budget. I don't care how much money you have in the bank.

Nothing about my plan changes when the economy gets a little shaky. The baby steps still apply, but now my debt-free philosophy suddenly makes sense. That's because the formula works, and anyone can do it. Every single person can build financial stability in a slowing economy.

Let's say the economy does descend into a full-blown recession. Am I gonna be OK? Yeah. Are you gonna be OK if you're out of debt? Yeah. But that's the point of getting control of your money and making it behave—you have security no matter what. And you earn it.

The bottom line is it's easy to become wealthy if you don't have any payments. If you didn't have a car payment, a student loan, credit card debt coming out of your ears, medical debt or even a mortgage, it can happen quickly.

If becoming secure in an uncertain economic environment is done by becoming debt free, becoming debt free is done by working from a written budget.

Everyone needs a written budget. I don't care how much money you have in the bank, whether there is money left at the end of the month or too much month left at the end of the money, YOU need a budget.

When I say this, I hear things like, "A budget, oh no, not me! I am a free spirit!" or "NO budget for me—things are pretty well under control" or "Only nerds do written budgets. You know, the guys with the calculators on their belts who don't have anything better to do on Saturday night." Wrong, wrong, wrong.

I counseled a young single man recently about putting some simple budgeting measures and plans in place. He soon called to say it was as if his money had grown, as if money was coming in from nowhere.

Developing a budget or cash-fl ow plan doesn't sound like much fun, does it? Does going to Europe, to Cancun to scuba dive or to Aspen to snow ski—and coming home to face no debt or credit card bills sound like fun? That is what a proper plan will do for you because you can begin planning that debt-free vacation as a part of your plan today. If you are a free spirit and want to have more freedom or time to write or paint, then you can plan financially to attain that status. But until you plan, you will never reach "free spirit" status financially because "unexpected" bills will always clip your wings.

We view budgeting as if it is a form of torture. A correctly prepared budget is not a form of torture, nor is it so time consuming that you can't have a Saturday night out. On the contrary, a proper, simple, written plan will actually give you more free time and money with which to enjoy it.

When we fail to plan, we plan to fail. Developing a budget helps you get closer to the goal of security by giving you a plan to get out of debt and develop a financial cushion for tough times.

Let's say you already have all this down. You're living without payments and you're feeling pretty secure. How does a slowing economy affect you? I've received calls from people asking if they should pull their investments out of the market or stop investing until things pick up. Don't even think about it. If anything, you should be investing more. It's on sale!

I never advise putting money in anything that you don't understand, but I've found that one of the best places to invest is in good growth-stock mutual funds. A good mutual fund offers the common man access to things to which we aren't usually entitled, like good diversification and good management.

Mutual funds are just what the name implies. You, me and a few other people put money together in a fund; thus, we have mutually funded this fund. You can visualize that big ol' mixin' bowl in your mom's kitchen. If you set that bowl in the middle of the table, I'll put in my $100 and you put in your $1,000 and some others can put in their $500 and so on. Now we have a fund that was mutually funded.

Let's imagine George is our fund manager. We picked our fund because of its fine management track record. Our fund is a growthstock fund so George took the money out of our mixin' bowl and bought the stock of companies that are growing. Like most growth funds, he bought 100 to 200 different growing companies' stocks. So now we own stock in companies that make everything from tires to toothpaste, flour to fire alarms, carpet to Coke and even banks to barns.

These funds are great because we own a little piece of those companies that make the products that make up inflation, virtually guaranteeing that we stay ahead of inflation. Although I invest and I highly recommend it to my listeners, it's important to remember that there are risks in the stock market. You may see dips or slows in your funds from time to time, but that's just the nature of the beast. If you're smart about your investments, they will go back up and you will make money. *Dave Ramsey is a nationally syndicated radio talk show host, best-selling author and host of The Dave Ramsey Show on Fox Business Network.*