




# Where our MONEY goes: revisiting what we buy

By Donna Pinsoneault



**Carl George, CPA remembers his father carrying a wad of cash when he stood in line at the utility office to pay the bill each month.**

“He didn’t know what a credit card was,” said George, CEO of Clifton Gunderson LLP. “This may sound corny, but there is something to be said for my father’s creed: If you can’t pay cash for it, you can’t buy it.”

George doesn’t recommend walking around with pockets full of cash these days. However, as chair of the National CPA Financial Literacy Commission of the American Institute of Certified Public Accountants, he is passionate about restoring financial literacy throughout the United States. With so many Americans putting off purchase decisions these days, there may never be a better time to get that message across.

AICPA conducts surveys annually to learn more about the purchase decisions Americans make. The April 2008 survey indicated that 41 percent of Americans were not only delaying big purchases such as homes or automobiles, but major life decisions such as getting married, having children, retiring or undergoing medical procedures.

“That’s an 11 percent increase from April 2007 and was reported well before the crisis really hit,” George said.

The survey also revealed that, of the 41 percent delaying major purchases, 28 percent cited lack of savings as a reason.

“That’s a knock your socks off stat and resonates exactly with what we in the CPA profession are trying to get across about financial literacy,” George said.

Financial professionals identify two segments of people changing how they deal with money. Those with available money now tend to be very conservative with investments as well as purchases. People who are struggling are seeking workable ways to pay down debt.

“We are in what some would call a ‘financial panic,’” said Clare Zempel, CFA principal of Zempel Strategic Applied Economic and Financial Market Analysis. “When it comes to investing, there is a shock about what has happened and dread about the future—a combination that often leads to doing nothing. The current mood is a reflection of the stock market dropping in stages since October 2007. When the market plummeted in October 2008, people started to worry.”

Last summer there seemed to be more anxiety about soaring gasoline prices than about specific moves in the stock market, Zempel said.

“But when Lehman Brothers was allowed to fail, it came as a shock which seemed to change the rules,” he said.

The sense of shock intensified with the demise of American International Group Inc. (AIG). But the single major development that drew attention



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occurred in mid-September 2008 when the value of a share of the Reserve Primary Fund fell below \$1.

“It’s been very rare for a money market fund to fail to maintain its value,” Zempel said. “That event caused widespread fear and concern.”

As a result, some individuals started to hoard cash, fearful of what might happen if their bank were to shut down. Similarly, some corporations borrowed to test their credit lines.

“That compounded the strains in the credit markets, which led to more individuals holding back, delaying replacing an automobile or sending funds to charity,” Zempel said. “It’s understandable that people behaved more cautiously. But those choices compounded the economic decline.”

Ironically, even some who have a great deal of wealth are scaling back.

“I’ve heard individuals who are financially very comfortable bragging about ‘hunkering down’—eliminating the land line in their homes, for example, to save a few dollars each month,” Zempel said.

Many people are also considering changes in their retirement plans. “This type of market tends to bring investors more closely in line with their true risk tolerances,” said Joseph Topp, CPA of Francis Investment Counsel LLC. “For example, people in older demographic groups who are aggressively invested have a shorter window to recover or to stay fully invested. The market decline will have an impact on their future planning.”

Topp referred to a recent survey commissioned by the American Association of Retired Persons (AARP). “Six in 10 workers age 45 and older said they will probably delay their retirement to make up for inadequate savings or a combination of losses,” Topp said. “Another 20 percent actually stopped putting money into their retirement plans—the exact opposite advice that we would give to them.”

Francis Investment Counsel is a Registered Investment Advisory firm that works exclusively with area employers to establish and monitor employee retirement plans. The firm works with participants to provide unconflicted investment advice and education about fundamentals and best uses of their benefit plans.

#### VISIT THE FOLLOWING WEB SITES FOR MORE INFORMATION ABOUT MAKING WISE DECISIONS IN A CHALLENGING ECONOMY:

- [36ofinancialliteracy.org](http://36ofinancialliteracy.org): Free to consumers, free of advertising and not requiring registration, the site offers in depth financial information based on 11 cycles of life, from childhood through retirement.
- [feedthepig.org](http://feedthepig.org): Geared to 25 to 34 year olds, the site offers advice on putting together savings and debt reduction plans. Also includes tips for taking small steps that can change spending behaviors over time.
- [feedthepig.org/tweens](http://feedthepig.org/tweens): A math-based curriculum geared for fourth-through sixth-grade students, the site includes a game and classroom activities for teachers to teach healthy financial behaviors, helping to ensure individual and collective financial literacy long-term.

“Now is the time to stay true to your savings goals, increase your savings rates, if possible, and take advantage of the market opportunities.” Topp said. “Pick an appropriate asset allocation and savings level to reach your goals, then consistently invest that money to lower your overall cost of acquiring the investments.”

### The flip side

Despite there being no clear precedents and no certain answers about the length of the economic recession, some are starting to look for opportunities.

“People are asking whether this will compare to the 1929–1932 Depression period,” Zempel said. “Almost certainly not because the mistakes that were made then are not being repeated. In the present situation, we’re taking strong policy actions to counter the financial panic and economic weakness, and those initiatives seem to be starting to work.”

Zempel sees the decline as creating an opportunity, especially for young people who may be starting to invest. “Stock prices have fallen a lot and the return over the next five to 15 years should be quite good,” he said.

For those already in the market, Topp advises staying the course. Assuming there hasn’t been a material change in your circumstances or risk tolerances, studies show that staying invested and keeping a diversified portfolio will produce a break-even position sooner than liquidating your equity position and trying to correctly time a market recovery.

“Even someone on the eve of retirement is entering a phase during which they will be both drawing out a portion of their savings but also enjoying a future investment horizon of 15 to 20 years.”

AICPA was a bit ahead of the game when it increased its focus on financial literacy. “You can’t solve your financial problems overnight,” George said. “The most important messages for consumers and investors today are to stay on course and take small steps toward your goal. Break down the small steps into two buckets: small steps toward saving and small steps toward reducing debt. Make a plan and stick to it.”

DONNA PINSONEAULT is a freelance writer based in Brookfield. She can be reached at [dpinsonault@gmail.com](mailto:dpinsonault@gmail.com).

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