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Ric Edelman: Truth about money

By
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Patience and confidence are the order of the day as we ride out the current economic turmoil. Now is not the time to be sitting on the sidelines with all your investment funds stagnating in a bank account. If you want to be well-positioned when recovery comes — and it will come, although I can't say when and neither can anyone else — you need to be a long-term investor whose portfolio is widely diversified. But what else can you do while waiting for recovery? After all, opening up your account statements and groaning isn't really "doing something." Here are seven action steps you should take today:

1. Be prepared for money emergencies. Eliminate credit card debt and build substantial cash reserves to get you through unexpected job loss, health issues or other family concerns. I recommend that you have six to 12 months worth of spending saved up and held in a safe, liquid account like a bank checking or savings account.

And remember, a home-equity line of credit is no substitute for cash reserves. With housing prices falling and the government tightening lending standards, banks across the country are freezing, reducing or eliminating previously approved home equity lines of credit. So just because you already have a HELOC in place doesn't mean it will be available when you need it.

2. Make sure you've provided for your family. This means owning the proper amount and type of insurance — life, health, long-term care, disability, auto, home and liability. Insurance protects us from the adverse economic impact caused by a loss. We can't often predict when or how a loss can come, but we can plan for the possibility.

3. Start or continue contributions to your retirement plan at work. Invest in a highly diversified manner, and avoid the stock of your employer — advice employees at Fannie Mae, Freddie Mae, AIG, Lehman Brothers and Bear Stearns now wish they had followed. Even though stock prices are down, history tells us that they will eventually rise. Consider the current slump as an opportunity to buy "on sale."

4. Get a big mortgage. Interest rates are declining — a happy side effect of economic weakness — so now's the time to convert home equity into a liquid resource. Having your home paid for doesn't mean you'll be able to pay for food, medical bills or utilities if you lose your job. A mortgage allows you to take the cash out of your home before you need it so you'll be better able to handle a crisis if it strikes.

5. Preserve your legacy. Update your estate planning, and make sure your will, trust and other legal documents are current and complete.

6. Stay in touch. Get a good adviser and keep him or her informed about how you're doing, and check in whenever you face an unusual financial situation.

7. Be realistic. Although we have many good reasons to be highly optimistic, there's no denying that our nation faces serious problems. Aside from the financial uncertainties of the moment, there's the war, along with threats of terrorism, bird flu and global warming. Fortunately, there's an even longer list of favorable developments, including innovations in medicine and health care, peace throughout much of the world, major advances in science and technology, adoption of the free-market system by nations worldwide, and new, focused attention on the aforementioned problems. Attention leads to proposed solutions which leads to positive resolution — no one ever gets hit by a bus they see coming.

Still, the road from here to there can be slow and choppy, with unexpected turns. Be realistic and, as stated earlier, be patient and confident.

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