

Credit Crunch

Time to Stay Calm



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As the Govt. is looking into its fiscal mismanagement, now is a time to remain calm, and look at your own financial management. I'm not a financial planner, but I know at least for myself, it seems to make more sense to eliminate my debt, then to struggle to save for the future. The interest I am paying on my debt, is higher than the rates of return I can now expect on my savings. Lowering my monthly expense will help me get through the tough financial times, and reduce financial stress.

From what I understand, one of the things that hurt Wall Street is that our current system of levered finance may be critically flawed. There is simply no more liquidity. Investment firms used to be allowed to lend \$14 for every \$1 they actually had, now the Bush Administration allowed that number to be increased to \$40 for every \$1, as long as it was backed by real estate, creating this massive sub-prime market and rush to home-ownership. Wall Street came up with any method they could of lending money that simply did not exist, and a housing bubble was created. As we can see, bubbles burst. The basis of the system has been a belief that securities backed by bad credits could be very safe.

So now it comes back to our own financial future. Items purchased with credit cards still have to be afforded and paid for, so lets all take a good look at reducing our own debt, and use this global situation as a cue to take care of our personal situation.

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