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What the smart money's doing
Experts says it's time to go on the defensive

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Experts say it's time to go on the defensive.

Facing an uncertain economy, the average person should cut debt, trim monthly expenses and become less vulnerable.

It is advice that Leslie Kelso is already taking.

"I wasn't making enough money," said Kelso, who lives in Midtown. "I worried about a foreclosure on my home. So I just got a second job. And I cut back on my cable TV and my home phone."

Now she works about 60 hours a week between one job as a casting director and another as a waitress at a Latin American restaurant, Mitra.

"You've got to make your adjustments where you can," she said. "Starbucks is no longer a part of my vocabulary."

Her worries echo national concerns. Corporate profits are down, and the stock market has been wobbly. Energy prices are expected to go a lot higher in coming months — and they are already high.

Maybe it's a recession, maybe it's not. But that's up to the economists.

What normal people know is that it's gotten harder to find jobs and depressing to look at either your home value or stock portfolio.

Millions of people are skating along the financial edge, just one piece of bad news away from a disastrous fall, said Elizabeth Warren, author of "All Your Worth: The Ultimate Lifetime Money Plan."

"Everybody needs to take a hard look at how they spend money," said Warren, a professor at Harvard Law School. "It is clearly going to be a difficult time."

Unless you are very confident of your income and savings, you should embrace some broad principles, Warren said.

"The No. 1 thing you want to do is minimize expenses that you have to meet month in, month out. Things like car insurance, homeowner's insurance, health insurance."

Americans were carrying a record amount of credit card debt — \$937 billion — in November, according to the most recent report from the Federal Reserve.

With many household incomes stagnant and job security a concern, that debt is dangerous, Warren warned.

"Pay down credit card debt," Warren said. "Have a garage sale and sell the skis, the clothes you haven't worn for six months, the videos and the CDs, and use every penny you get to pay down your debt on your credit card."

"That may be the difference between survival and failure."

Rebate checks coming

With growth slowing, the president signed a stimulus package that is centered on rebate checks to taxpayers.

The idea is to pad the pockets of consumers, who account for roughly 70 percent of the economy, and hope they spend that extra money.

Medicine that is good for growth could be poison to the individual — at least if it means going still deeper into debt. Now, even younger, less burdened consumers are growing cautious.

John Jewell and his wife, Marilyn Corn, are engineers, living in Atlanta in a condo they bought two years ago.

He carpools to work. She drives a Prius. They often cook at home rather than eat at a restaurant. And as they were peppered with news about a possible economic slowdown, they looked at larger changes as well.

"We have reallocated some retirement funds," Jewell said. "We've diversified into more international equities and international bonds."

And if prospects at the office do not look bright, his wife is thinking of returning to school, he said. "She is considering getting an MBA. Now seems like a good time."

Picking the right strategy depends largely on predicting the future. Even Federal Reserve Chairman Ben Bernanke now says a downturn is possible.

Short-term forecast?

But how far the fall? How long till it's over? Bernanke says the trouble will last about a half-year. Others are much more pessimistic.

Campbell Harvey, a Duke University economist, said this downturn — if that is what it is — looks different from others.

"One of the main differences is that corporate balance sheets are in good shape," he said. "We haven't seen slashing because companies are in fairly good shape.

"It is not to say that you shouldn't hedge, but it is not time to panic."

But since no one truly knows, don't plan as if you do, said Emily Sanders, president and CEO of Sanders Financial Management in Norcross.

"I would take a one-year view — there is so much uncertainty," she said. "If you are only 25, I'd take the longer view. But be careful to keep your horizon short. Don't over-commit yourself to one strategy or another so that you are locked in and can't change."

Business backstop

Even some risk takers find ways to carry a parachute as they leap.

Janice Moss of Ellijay started a business with her sister: the Strings & Sticks Yarn Shoppe. She shrugs off the timing.

"When we started the business, we didn't foresee the mortgage industry going down the tubes."

She has not given up her prime source of income, her job as a property manager for B.F. Saul Property Co. And she is driving a nine-person van pool that saves her about \$300 a month in gas costs for the 152-mile round trip to her office.

"Everybody has a sense of uncertainty," she said. "We haven't really gone shopping for clothes in the last year."

CONSUMER TIPS

It may not be a recession — that's up to the economists. But things are not looking great. And, yes, some people are more secure than others. If you are worried, here are some routes to take to protect yourself:

- **SKILL UP** — Go back to school (or stay there) until this thing blows over.
- **CUT DEBT** — Pay off credit card bills. (And just what do you get in return for those finance charges?)
- **SHOP SMART** — Shop around to find a cheaper car or homeowner's or health insurance. Cut those expenses, and you save money each month.
- **CUT SPENDING** — Take a cheaper vacation (you know, Smyrna is lovely this time of year). Make restaurants less routine and more of a treat. (But tip well, would ya?)
- **FIND MORE INCOME** — Work another job. ("You want room for cream?") Rent out an extra room. Hold a garage sale. Charge your live-in son for groceries. (Look, he's nearly 40.)

- **DIVERSIFY** — If you have financial investments, talk to your broker about spreading the risk. Find some safe harbors for your money.
- **MOVE** — Paying a lot for rooms and yard that you don't use? It's not a great market for selling your home, but if you've owned it a long time, you should still do all right. It might make sense to downsize to something cheaper. But don't supersize your debts by grabbing something that requires a bigger mortgage.
- **DIPLOMATIC SOLUTIONS** — If things are out of control, see if you can negotiate with creditors. They'd rather have something than nothing. Which brings us to ...
- **TELL IT TO THE JUDGE** — Bankruptcy is still the way out for some people — especially those with large debts and no job. But if you can, don't apply until you have another job; you'll probably be obligated to pay any debts you run up after filing.

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