Then and Now

Nancy D. McKee, CFP® • Allegheny Financial Group • October 2009

A Lifetime of Frugality

My grandmother was twenty years old when the market started to crash in 1929. A newlywed, she had only been married a year when Black Thursday occurred on October 24, 1929. That initial stock market collapse lasted a month with an interim bottom on November 13, 1929 and then bounced back before starting a steady slide that didn't end until mid-1932. It then rebounded significantly before taking another hit in the fall of 1932.

I thought the below picture was a perfect depiction of life in the 20's. At 17, she is wearing a mink and dressed to the nines. She was born in Slovakia and immigrated to the US when she was five years old. Although her family lived in Donora, when she was a teenager she was sent to Pittsburgh to live with an Irish family and to find work. My grandfather was the son of the family that took her in. Tall, dark and handsome, he was older and based on my photos, he courted her for some time before they married in August 1928 and started a life together.

My father was born in January 1931 when unemployment started to soar. Grandfather had lost his own job and would get up in the morning to go looking for work or any odd job in order to make a few dollars. She told me that they had a beautiful carved bedroom set that they chopped up for wood to use to heat the rooms they were renting. Can you imagine that? Having to chop up furniture to use for heat? The mink was gone and frugality became a lifestyle that never left my grandmother. It sounds grim and it was. The Depression made an impression.

It didn't help that my grandfather died in 1943 at the age of 41 leaving my grandmother with four children. She worked several jobs and went to school to become a nurse. She saved and skimped. A common meal was just broth or sugar sandwiches. Remember those? Bread buttered and then sprinkled with sugar? She served that to her kids even when they were adults - even when she was making ends meet.

She was truly a product of the Depression. Keeping her money under her mattress and, pardon me, grandma, living like a bag lady.

Although our current situation has been tough, we haven't reached Depression levels. But will the current economic events affect us in a similar profound way? I think we are entering a paradigm shift in spending and savings habits. A different shift than Grandma's but a shift none the less. Sugar sandwich anyone?

So, what did you buy yesterday that you can do without tomorrow?

I saw this line in a magazine years ago. I cut it out and put it on my refrigerator and it has been there ever since.

One of the biggest questions asked is how can I cut expenses and save more.

There are articles, websites and even magazines devoted to budgeting or simple living.

One of the first steps it to figure out where your money is going and just as important, what money is coming in. Recording your income and expenses, whether computerized or handwritten, is an important exercise because it helps identify spending patterns.

Become passionate about spending less and you will obtain it no matter what method you choose.

If you are spending too much, there are several ways to cut back. One approach is to work on changing your spending habits. Suppose you are spending too much money on particular items or spending more money at certain times of the month. By being aware of those habits, you can make appropriate changes. You may also try shopping smarter and reducing restaurant/entertainment expenses. Learning to "walk away" from the merchandise gets easier as you put it into practice.

Paying your self first means saving first. Setting up automatic bank drafts to go into an account we've labeled 'untouchable' is an easy way to pay your self first.

I have developed a budget book to help track spending. It's set up to be placed in a spot where you will see it everyday, like the kitchen counter for example. If you would like a copy, let me know and I'll put one in the mail to you.

Tips to stay on track:

• Separate "needs" from "wants"

• Avoid using credit cards – it is too easy to forget what you've already charged

• Use the 'Buddy' system – changing a habit together with someone is easier than doing it yourself

• Stay disciplined – make budgeting a part of your daily routine

• Build a reward into the budget - treat your self when you are making progress

• Have a "no spend" day – see if you can get through a whole day without reaching for your wallet

But the absolutely most important step in changing is that you have to want it. Set goals, commit and want it. Michael Phelps won gold because he wanted it more than the other swimmers. He had already believed the gold was his. Become passionate about spending less and you will obtain it no matter what method you choose.

Yearly Savings Rate

The U.S. Department of Commerce: Bureau of Economic Analysis has tracked the personal savings rate each month since 1959. I've extracted the data to show January of each year.

1959	8.3%	1984	9.4%
1960	8.4%	1985	10.3%
1961	6.2%	1986	8.2%
1962	8.4%	1987	8.8%
1963	8.0%	1988	7.0%
1964	7.9%	1989	7.6%
1965	9.3%	1990	6.6%
1966	8.4%	1991	7.9%
1967	9.2%	1992	7.4%
1968	9.0%	1993	5.8%
1969	7.1%	1994	4.0%
1970	8.3%	1995	5.6%
1971	10.0%	1996	4.2%
1972	9.1%	1997	3.7%
1973	9.1%	1998	4.6%
1974	11.6%	1999	4.0%
1975	10.3%	2000	2.9%
1976	9.2%	2001	1.9%
1977	8.5%	2002	2.9%
1978	9.9%	2003	1.8%
1979	9.4%	2004	1.9%
1980	9.3%	2005	0.9%
1981	9.9%	2006	1.1%
1982	11.9%	2007	0.9%
1983	9.9%	2008	0.1%
		2009	4.4%

In July 2009 the savings rate was 4.5%. The numbers speak for them selves. WE NEED TO SAVE MORE!

Credit Card Debt Statistics

The average household has more than $8,000 in credit card debt, up from about $3,000 in 1990.

The average interest rate charged by credit cards is 14.71%.

About 40% of active accounts are paid off monthly. About 3% of credit card accounts are past due by 30 days or more each month.

The most recent Federal Reserve study showed that 43% of U.S. families spent more than they earned. On average, Americans spend $1.22 for each dollar they earn.

The average amount of money that baby boomers spend each day is $64, down from $98 in 2008.

Sources: CardWeb.com, MyVesta.org, and Gallup Inc.

Your referral is my greatest compliment. Thank you for your trust and confidence.

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