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We need to save more when times are good

By: Craig Guillot, May 26th 2014



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Things are looking better on the economic front.

According to the Bureau of Labor Statistics, the national unemployment rate fell to 6.3% in April, down from 7% in November and nearly 10% in 2009. Average hourly earnings are also up from \$24.15 in November to \$24.31 per hour now.

The Dow and S&P 500 are near all-time highs. Personal bankruptcies are down and housing values are back on the rise.

By most measures, we're a heck of a lot better off than we were in 2008.

But despite this good news, our personal savings rate fell to a dismal 3.8% in March. It's one of the lowest monthly personal savings rates since 2007.

It's not so surprising that Americans are saving less when times are relatively good. Jeff Reeves, the editor of InvestorPlace.com, says behavioral finance is often counterintuitive.

Much like investors often make the mistake of buying when stocks are hot and selling when they crash, they spend money when they have it then try to save it when they don't have it.

It's the exact opposite of what we should be doing.

"It's in our DNA. We're wired to think this way," Reeves says. "We want to spend when times are good and we don't think about what could be around the corner."

Glossary

- ▶ 401(k) plan
- ▶ Individual Retirement Account (IRA)
- ▶ Recession
- ▶ Real Estate Investment Trust (REIT)

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Personal Saving Rate 1959-2014



Source: U.S. Department of Commerce

No matter how good times may be, it's important to remember that it's only a matter of time before the next recession or economic calamity. Stuff happens.

Kimberly Foss, founder and president of Empyrion Wealth Management in Roseville, Calif., says we should be saving at least 10% of our income at all times.

But when times are good, or when we have the ability, we should be saving even more.

History shows us that Americans rarely do that. Going back to the late '50s, the average savings rate has been about 8.4%.

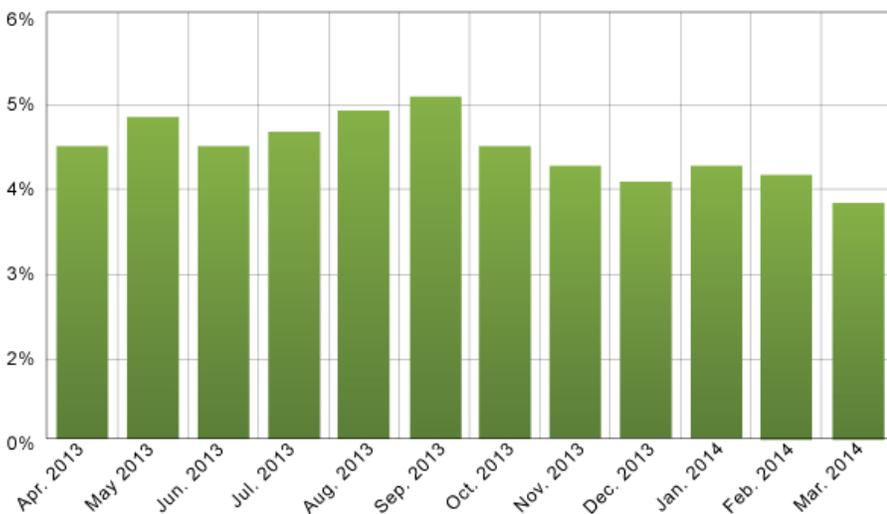
But it was well over 10% during the '60s, '70s and even early '80s before steadily falling to below 3% between 2005 and 2007.

At numerous points in history, we've seen the savings rate fall in good times and rise in bad times.

It tells us we have the ability to save, we just lack the motivation. While recessions often serve as wake up calls that shock people into saving and better money management, the good behavior usually doesn't last very long.

"We often forget. We might have a longer retention span when something really horrible happens but we get back to [not saving]. People have been on guard for so long, they want to springboard back into spending," says Foss.

Personal Saving Rate April 2013 through March 2014



Source: U.S. Department of Commerce

If we were consistently saving 5% to 6% in 2008 and 2009, there is no reason we can't save that, or

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Increased consumer spending is often one of the first signs of an emergence from a recession, Reeves says.

While that spending is needed to help the economy, it should be tapered with the need to save.

"It's important to keep things in perspective. People see the headlines and think everything is great but it's not a promise that things are always going to be that way," says Reeves.

Foss says we should be saving more not just to survive the next coming storm but to capitalize on it.

Hard economic times often produce low prices.

When the bottom fell out of the economy and housing market in 2008, it was the optimal time to buy a house, vehicle or invest in the stock market.

Retailers feeling the pinch also discounted many goods.

"When you save in good times, you can turnaround and [spend and invest] in bad times and get a lot more bang for your buck," Foss says. "Life, the economy and the markets are all cyclical."

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