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FISCALLY FIT
By TERRI CULLEN

Shoring Up the Bottom Line

Tight Credit, a Shaky Market and $100 Oil Leave Terri and Her Friends Feeling Uneasy

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My neighbor dropped by over the weekend and we got into a conversation about housing and the state of the financial markets -- she works in the financial-services industry, so we talk about these things often.

My neighbor and her husband are in the process of an expensive home-remodeling project they've wanted to do for years, but now they're worried about the timing. As one big bank after another discloses huge credit-market losses, and mortgage companies lay off workers by the thousands, my neighbor is growing concerned about her own job security.

TALK WITH TERRI

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Are you worried[2] about where the economy -- and the financial markets -- are headed? Do you plan to cut back on spending this holiday season or make changes in your portfolio? Join me and your fellow readers **in a discussion**[3] about financial anxieties.

Her husband owns a small business that relies on the strength of the housing market; she says he's seen sales fall off so sharply that he's considering closing shop. Still, they're in good shape financially; while they're not planning on calling their remodeling project off, they are being far more careful with their spending on the project.

I told her about my husband Gerry's recent decision[4] to not buy a 2000 Corvette -- the car of his dreams -- because it would mean piling more debt on top of the debt we already have for our recent home projects. Gerry didn't pass on his dream car because he was concerned about losing his job or our financial stability. Rather, it's that he's generally the conservative type who likes to avoid incurring debt whenever possible. After he made the decision, I admitted to feeling uncomfortable with the level of debt we'd have taken on if he had bought the car. So far our remodeling projects have been cosmetic, but we've got some costly, necessary repairs ahead of us and I worried that we might be digging ourselves in too deep.

My neighbor then mentioned a mutual friend who'd just finished her own big home-remodeling

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ABOUT TERRI CULLEN

Terri writes the "Fiscally Fit" personal-finance column every Thursday for The Wall Street Journal Online, in addition to other personal-finance articles and features. Terri is an assistant managing editor and one of the original team of editors who helped launch the Online Journal in 1996. Terri is the author of "The Wall Street Journal. Complete Identity Theft Guidebook," published in 2007. Terri also is a contributor to "The Wall Street Journal Online's Guide to Online Investing," published in 2000. In 2002, she won the Medill School of Journalism Financial Writers and Editors Award for best national financial columnist.

Send your comments about "Fiscally Fit" to Terri at fiscallyfit@wsj.com[12].

project. Her husband, an information-technology specialist, has been out of work for months due to an illness. Now the couple is feeling uncomfortable about relying on a single income and he's actively seeking work again.

"All of the sudden, it's like we're all feeling it," my neighbor said, referring to our sudden unease about our finances. After the housing market coughed and the credit markets sneezed -- though "came down with pneumonia" is more like it -- even consumers in relatively good financial health are starting to feel a touch of the flu coming on. Certainly folks like me and my neighbor feel that way, which took me by surprise because we're households with upper-middle-class incomes and comfortable net eggs.

William G. Brennan, a financial adviser at Capital Management Group LLC in Washington, D.C., says he's seeing similar anxiety among some of his clients. "There's a lot of unease about where the economy is heading," he says. "People aren't calling in crisis mode, but they want to be sure they're protected on the downside."

All this unease got me thinking about ways my neighbors and I could shore up our own finances, ensuring we'd be on the best footing should some financial crisis strike.

Clearly debt is job one: I generally pay off my high-interest credit card at the end of each month, but occasionally I do carry a balance on my card month-to-month. At the same time, my husband Gerry and I are spending an extra $200 a month to pay down our low-interest mortgage earlier. That's foolish -- by transferring that $200 mortgage-principal prepayment to cut down the credit-card debt, I could pay down my outstanding balance far sooner, saving on finance charges, and then get back to prepaying the mortgage.

And speaking of credit cards, I hadn't checked recently to see if my variable-rate, reward-program card is still a good deal compared with similar cards. (You can do that here[5].) Turns out it's not -- after doing a search for reward cards, I found the average weekly rate on a standard credit card is 13.42%, compared with my standard purchase rate of 15.7%. A quick call to my card company's customer-service line yielded results: The rate was shaved to 10.49%. Nice!

We have an emergency-savings account that would pay living expenses for three to four months, and Gerry and I have a $100,000 home-equity line of credit to carry us beyond that. If we didn't have emergency savings, I'd cut back on our spending and focus on building it up. And if we didn't have the credit line, I'd open one so we could count on it in the event of a long-term financial emergency, such as a job loss or medical condition.

Barry Kohler, a certified financial planner with BDMP Wealth Management in Portland, Maine, says now is a good time to take a look at our overall investment portfolio and make sure we're properly diversified.

Investors in their 30s and 40s (like us) should make sure they're well diversified and then stay the course, he says, while "people who are pre-retirement or in retirement may want to consider dialing back on their equity holdings to make sure they've got enough downside protection."

Don't abandon stocks wholesale, since you need equity holdings to fuel growth, he says. Instead, make sure you have a proper balance of stocks and bonds for your risk tolerance. (This asset-allocation worksheet[6] can help you find the right balance.)

Mr. Brennan of Capital Management suggests holding stocks in tax-advantaged retirement accounts, such as IRAs or 401(k)s, and keeping short-term savings in accounts with immediate liquidity, such as money-market funds, short-term, exchange-traded Treasury bond funds and open-end bond funds. "Avoid individual bonds that may have to be liquidated at a loss" in the event of a financial crisis, he says.

Mr. Brennan also recommends diversifying our equity portfolio between equity classes, including international stocks, to reduce risk. "Income producing equities may add some downside protection," he says.

Investors who are facing a cash-flow crunch may also want to move several months of living expenses into liquid investments held in your IRA, he says. In a real emergency, money can be pulled out for 60 days -- no more than once a year -- and returned without incurring income taxes or the 10% penalty.

Mr. Kohler of BDMP Wealth Management says consumers who are feeling anxious about the state of their finances should defer purchases of big-ticket items. "I wouldn't say go buy a new car, but making their holiday pocketbook smaller than their heart would be a good thing," he says. (Gerry and I have already nixed the new car purchase, and we have no plans to spend more than we normally do on our holiday spending.)

Finally, Mr. Kohler says, breathe. It's natural for investors to feel anxious in times of financial-market volatility, but there's no reason to panic. "I think people are overreacting," he says, "There's a sense that a lot of it is exaggerated, because it's fueled by the media -- no offense." (None taken!)

Instead, he says, avoid making hasty financial decisions -- those often turn out to be the worst.

Are you worried about where the economy -- and the markets -- are headed? Do you plan to cut back on spending this holiday season or make changes in your portfolio? Write to me at fiscallyfit@wsj.com[7], and then come join me in a discussion[8] about financial anxieties.

Or, join me and your fellow readers in a continuing discussion[9] on last week's column[10] about kids and holiday advertising.

Write to me at fiscallyfit@wsj.com[11].

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