The College Savings Crisis: Part II

If you missed Part I – in which we explain the problems with stock mutual fund-based college savings plans – you can **read it here.**

Warning #2: **Consumers curbed their spending**
Right or wrong, the economic policy this country has thrived on is one in which people spend money.

Lots of money. Call it a consumption nation.

Consumption on all kinds of things. Things like shoes, swimming lessons, visits to the dentist, new cars, used cars, jet-skis, etc. The list could literally go on forever. With businesses profiting off of every transaction. This has kept the overall economy humming along at a fantastic rate.

But what happens when Americans stop spending?

For decades, this country has never had to face that question. The U.S. economy was on a multi-decade binge of Americans borrowing money and then spending it.

Since World War II, this has been the trend. Borrow and spend. And the more families borrowed and spent, the bigger the revenues for manufacturers and retailers.

But not anymore. For the first time since the Great Depression of the 1930's, families are not only borrowing less but they are paying off their previous short term debts as well.

This is happening for 2 reasons:

1. People are defaulting on their debt. (See the home foreclosure market as one example.)
2. People are trying to avoid default by paying down their debts.

Debt reduction is often times a great decision. But right now, it only means one thing: **A massive pullback in consumer spending!**
The very thing that our economy was built on.

So now, instead of splurging on $3,000 family vacations and buying the latest SUV for $40,000 – people are cutting back. A shift from exuberance to prudence.

All at the expense of corporate profits. And when corporate profits go down. You can be sure, the stock market will be soon to follow.

Don't get me wrong. In the long run, lower debt and higher savings rates is a good trend. <u>But right now, it's threatening to force our countries economy into another crash.</u>
Warning #3: **Credit Unions going under**
Do you know what happened in the banking industry on Friday September 24, 2010?

If you blinked, you probably missed it. (Due to the virtually non-existent media coverage.)

This was the day that the NCUA or National Credit Union Administration took control of three wholesale credit unions. Unions which provided financing and investment services to more than 7,000 retail credit unions across the country.

Why did this happen?

Just like the bailed out private banks and the failed mortgage giants of a few years back, these 3 massive wholesaling credit unions made BIG, risky, and ill-placed bets in the commercial and residential real estate market.

And the losses piled up. So much so that federal banking regulators decided to shut their doors.

And this was the first time big wholesalers like this were shut down this year. Five in total have been forced to shut down just this year. These 5 wholesalers alone represent more than 70% of the entire nation's wholesale credit unions.

This is yet another reminder what a risky and speculative game banks play with your money. Made worse in the long run by yet ANOTHER government bailout to keep the whole con game going.

The banking crisis is clearly not over. As evidence by these string of failed wholesale credit unions. And to make matters worse, banks that haven't gone belly up are cutting back. Cutting back on the very thing they are in business to do – lend money to people. Making things even more difficult for families and businesses to get access to credit.

My take on all 3 of these Warnings…

1. The stock market could be headed for another crash. When? I'm not sure. I don't claim to have any sort of market timing powers. Your guess is as good as mine. But the key is to be as prepared as you can be.
2. Start relying less and less on Wall Street advice. It should be obvious by now that chasing returns, following mainstream media advice, and banking on completely unrealistic stock market investment returns isn't working.
3. Start seeking out a savings and financial process that includes certainty. Certainty that no matter what happens to the stock or real estate markets, you'll have a good portion of your hard-earned dollars steadily growing for you.

In all my years as a college funding advisor, I have concluded one major thing. Deep down **everyone wants certainty.** We all want every one of our investments to work perfectly. No one really wants to lose money. But we have been led to believe that in order to make big money, we have to be willing to take big risk. But, if given the option to make good returns with no risk, everyone would take it.

"The #1 rule of investing is don't lose money. The #2 rule of investing is to remember rule #1." ~Warren Buffett

Seek certainty. And when you find it, take it. You'll be rewarded with both consistent growth and protection of your money in all market conditions.