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Emotion and stress cause consumers to make poor finance choices

First Command offers tips to replace fear with facts when dealing with affairs of the pocketbook

FORT WORTH, Texas – To say that the American consumer has been spooked by the gloom and doom of economic reports is putting it lightly. The fact is most of us have at some point in our lives made a rash decision out of fear that we later regretted and many of us have put off critical financial decisions for fear of making the wrong choice. In this economy, the only thing worse than overreacting is not reacting at all.

“In today’s uncertain times, it’s easy to subconsciously make decisions based on fear instead of fact,” said Scott Spiker, CEO of First Command Financial Services. “We have to take emotion out of the equation, or we risk making financial decisions that actually hurt us in the long run.”

Based on their financial fears, many consumers have taken drastic measures that could put them in jeopardy down the road, such as borrowing from their 401(k) to pay off debt or canceling their health insurance. Before making such decisions, one needs to sit down to think about how to logically keep their financial picture intact in this trying economy.

Below is some fact versus fiction according to First Command:

Retirement Investments: Emotion tells us that we’re in a free fall and to get out of the stock market while the facts say the market is priced at what it was 12 years ago.

- Emotions may run particularly high for retirees who have seen a big drop in the value of their lifetime assets. If you are one of them and feel a need to move your money out of the market for peace of mind, one option is to start small.

“Consider withdrawing only the money you need to cover your living expenses for the coming year,” advised Joe Morrin, CFP® and director of financial planning at First Command. “Leave the rest of your investments alone.”

Historically, after the market has experienced dramatic declines, it has eventually recovered and gone on to reach new highs. Often the initial period of recovery is as steep as the worst part of the decline. Consider these notable short-term declines of the S&P 500 in recent history, along with the immediate recovery periods that followed:

Date Began	Percentage Decline	Date Ended	Subsequent 1-year return
January 1973	48.2%	October 1974	38.0%
August 1987	33.5%	December 1987	22.4%
January 2002	32.0%	July 2002	17.9%

While past performance cannot guarantee future results and no one can be certain when and if the market will rebound, history can provide some perspective.

- If you are planning to retire in the next 10 years, now may be the time to start shifting from asset accumulation to preparing your assets to generate a retirement income. Generally, as you move closer to retirement, you will want to consider more conservative investment options.

“Start preparing now with annual reviews of your risk tolerance and asset allocation, ensuring that both are in line so you can confidently and successfully transition into retirement,” Morrin said.

Remember to take into account that since a typical retirement could last decades, retirees also need to consider the long term. Assets you’ll need in the first few years of your retirement should be liquid. However, depending on your circumstances, it may be prudent for the rest of your investments to remain in the market.

“Your retirement is long term so you should consider long-term investments,” Morrin said.

If you’re in your 20s or 30s, you will likely go through several more market cycles before you’re ready to retire. “The market doesn’t always go up,” Morrin said. “That’s a valuable lesson to burn into your psyche. Understanding that bear markets have historically been temporary will help you to stay invested today and in future downturns.”

In fact, this may be a great time to add to your investments by “buying low.” As others flee the market, buying opportunities can be created for those with long-term horizons. One way to avoid worrying about the specific timing of your purchases is to dollar cost average by investing a fixed sum of money periodically – every week, month, or quarter. When stock prices are high, you purchase fewer shares at those levels. When prices are low, you buy more shares at relatively attractive prices. Of course, dollar cost averaging, like any investment strategy, does not assure that you will not lose money.

- As scary as it is, sometimes brainstorming the worst case scenario can help you feel more prepared by ensuring you set realistic goals about what you need and that you are on track to meet those goals.

College Savings: Emotion tells us to pull everything out while logic says to sit tight and consider all of your options including less expensive schools and living at home to save money. Before you take drastic action, check to see if your investments for college are in line with your time horizon.

- If your child is still a toddler, don’t let the downturn cause you to panic. You have a number of years and it may be possible to recover from recent market losses. You have a long-term horizon, so the current market downturn could be a buying opportunity.
- If you have a child who is starting college next year, remember that you actually have a five-year goal. “You’re just paying one year at a time,” Morrin said. If your child starts college in the fall and you need money now consider a state school or a community college, which are typically lower-cost options. Living at home can save thousands of dollars a year on room and board.

Start by taking a close look at your finances. If your assets or income have taken a big hit in the current economic turmoil, be sure to update your Free Application for Federal Student Aid (FAFSA). This well-known form is used to determine eligibility for federal student financial aid, and many states and schools use it to award non-federal aid. “If you had \$100,000 and now only have \$50,000 that can impact eligibility,” Morrin said. “You may go from not qualifying to qualifying for financial aid.” Be sure to continue to update your FAFSA annually.

Saving vs. Spending: Emotion tells us to save every penny in this economy, while logic says if you have saved for your personal needs or planned for a large purchase it is OK to spend.

- Many people don’t balance their checkbooks today so try writing your budget on a 3x5 card and carrying it with you; every time you spend money, subtract it from that card.
- If you charge your daily expenses on a credit card, then use your receipts to help you keep a running total. At night put your receipts for the day in an envelope and write down the day’s total on the outside of the envelope. “This daily practice makes it easy to keep track of your expenditures throughout the month, not just when the bill arrives in the mail,” Morrin said.
- Look for ways to save on electronic services. Premium television channels, cell phones, Internet service – the costs can add up fast. Are you really getting full value out of the expense? Can you eliminate some expensive but seldom-used features? Also, you may be able to save money by seeking out a provider who offers bundled services.
- Don’t buy your lunch with a credit card. In fact, don’t buy a lunch at all. You can save hundreds of dollars per month by bringing a lunch from home. “That’s an easy and painless way to cut spending,” Morrin said.
- To start drawing up a budget, look at three months worth of spending (bank records), add it up and divide by three. That is your average spending per month.
 - Look at where you’re overspending and take away from those buckets
 - Cut back a little at a time or just one bucket so it doesn’t seem overwhelming
 - Reevaluate on a set day at the end of each month

Refinancing Home Mortgages: Emotion tells us to take the lower interest rate no matter what while logic says to weigh the cost versus the actual savings.

- Look at how much it will cost to refinance and how long it will take for you to recover the cost. If it will take you three years to make it up and you’re planning to stay in your home for 10 years, then it’s a no brainer.
- Homeowners need to look at how much they’ll be paying, not just at the drop in interest rates. Another area where you may be able to save money is on private mortgage insurance. If you can make a down payment of 20 percent, you’ll likely sidestep this additional fee. (If you’re paying mortgage insurance premiums on a home you’ve owned for several years, your loan to value ratio may have improved enough that your lender will eliminate the premium. Check with your mortgage company to find out their rules on waving mortgage insurance.)

Credit Cards: Emotion tells us a few hundred dollars won't matter when we're already in debt while logic says stop adding to the debt even if you are only making minimum payments. It will be a lot easier to pay it off when the economy recovers.

- If you don't have three to six months of living expenses saved continue making the minimum payment and focus on increasing your savings. If you don't need it, you can use the money you saved to pay off your credit card debt when the economy has settled. Meanwhile, you'll be improving your savings-to-debt ratio. A landmark research initiative by First Command revealed that a family can have some debt and still feel financially secure and optimistic – as long as they're disciplined in saving and paying down their debt. “Families who have debt may still enjoy feelings of financial security and optimism by engaging in behaviors that improve their savings-to-debt ratio,” Morrin said.

Sometimes even knowing the facts isn't enough when we are so emotionally close to the decision. Two additional ideas to help consumers get past the fear and emotion are:

- **Create a financial plan or revisit the one you have.** According to the First Command Financial Behaviors Index, financial confidence has been strengthening among those who are planning for the future. In December, 53 percent of respondents with a financial plan said they did not feel financially stretched, up from 48 percent in September.
- **Consider scheduling an appointment with a trusted advisor.** An advisor can assess all the moving parts from an objective standpoint offering advice based on experience and training instead of fear and emotion. “Even in a difficult economy, people with a financial plan through a financial advisor report greater confidence in their ability to retire comfortably, greater financial security on a day-to-day basis and they report feeling less financially stretched,” said CEO Scott Spiker. “Households with a financial plan have greater comfort with their levels of savings and personal debt, providing greater security in the tough economic climate that was 2008 and greater confidence when facing the uncertain outlook for 2009.”

It is obvious that consumers are faced with a number of difficult financial decisions right now, but they don't have to be paralyzing and they don't have to keep us up at night. Now, more than ever, consumers can benefit from the support of an educated and trusted advisor who can help them replace fear with fact and emotion with logic as they navigate their financial futures.

About First Command

First Command Financial Services and its subsidiaries, including First Command Bank and First Command Financial Planning, assist American families in their efforts to build wealth, reduce debt and pursue their lifetime financial goals and dreams—focusing on consumer behavior as the first and most powerful determinant of results. Through personalized financial plans that emphasize accumulating wealth while reducing risk, First Command Financial Advisors have established lasting relationships with hundreds of thousands of client families since 1958.

About the First Command Financial Behaviors Index

Compiled by Sentient Decision Science, LLC, the First Command Financial Behaviors Index assesses trends among the American public's financial behaviors, attitudes and intentions through a monthly survey of approximately 1,000 U.S. consumers aged 25 to 70 with annual household incomes of at least \$50,000. Results are reported quarterly. The margin of error is +/- 3.1 percent with a 95 percent level of confidence. Visit www.firstcommand.com/research

About Sentient Decision Science, LLC

Sentient Decision Science was commissioned by First Command to compile the Financial Behaviors Index. Sentient is a full-service market research firm with special vertical expertise within the financial services industry. Sentient specializes in advanced research design and statistical analysis of behavioral and attitudinal data.

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