The past year has been tough for a lot of families out there.

Debt is rising, banks are closing, unemployment is up, real estate dried up for a while, and the market has taken a roller coaster ride that’s left all of us dizzy. Plus, all the talking heads on television have gone on and on about how hopeless everything is, only adding more fuel to the fire.

In light of all this, many people have asked if Dave has changed his views on anything, or if he has rewritten any of his fundamental teaching principles. The short answer is, “NO WAY!”

Sure, 2009 has hit a lot of people hard, but the truth is, it really just shined a spotlight on what people were already doing with their money. If they were up to their necks in debt and payments with no savings and ridiculous mortgages, then of course they weren’t ready for a dip in the economy. It’s like Warren Buffet says, “When the tide goes out, you can tell who’s been skinny dipping!”

Dave’s teaching principles aren’t based on month-to-month shifts in the economy. He teaches God’s and Grandma’s ways of handling money. These are timeless truths that don’t change. They work when the market is up, and they work when the market is down.

So, let’s take a look at a few specific areas that we’ve been getting a lot of questions about.
Dave has said time and again that the people who get into trouble with their investments are those who try to time the market. That is, they put their money in, take it out, move it around, mess with it, and are completely incapable of leaving it alone! They get scared by the headlines and start messing with their long-term investments. That’s a HUGE mistake!

Long-term investments are just that—investments for the long term. You should only invest money if you’re willing to leave it alone for at least five years. A full 100% of 15-year periods in the stock market’s history have made money. That’s 100%! Like Dave says, you don’t get hurt on a roller coaster unless you jump off!

Since 1970, the stock market has experienced a 10% drop 10 different times, and the year following each drop shows an average gain of 33%. That’s how the market works; it has ups and downs. If you pull your money out during a down market, then you’re setting yourself up for failure and you’ll miss out on the upswing.

Take the Great Depression for example. That’s the biggest drop we’ve ever experienced. Do you think people were scared back then? You bet they were! But here’s the key thing. Those wise investors who just held on and left their money alone recovered their losses in four years and four months. Those who sold out during the crash realized a 78% loss.

These people had a short-term mindset, and it cost them everything. Don’t let that happen to you!

If an example from the 1920s doesn’t do it for you, then let’s look at what’s going on right now. In July of 2009, the Dow Jones increased 8.6%. That’s the best July performance in a decade! And the S&P 500, a listing of the 500 largest companies in America, was up 7.4% in July 2009. That’s the best July performance for the S&P since 1997. Not only that, but it’s up 34% since March 2009!

Don’t play games with your investments. If you’ve been contributing to retirement accounts and other long-term goals, keep going! If you haven’t, and if you’re out of debt with a full emergency fund, this is the perfect time to start! The market’s on sale! Get in the game!

### The Great Depression and Recent Recession

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<tr>
<th>Year</th>
<th>Event</th>
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<td>1938-1940</td>
<td>Unemployment grew to over 17%, the Stock Market dropped 89%, and bread lines were real; executives didn’t fly Gulfstreams to Washington, D.C. looking for bailouts. <em>(Historical Statistics of the United States, Colonial Times to 1970. U.S. Bureau of the Census, 1975)</em></td>
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<td>1974</td>
<td>The Stock Market dropped 50%, gas lines snaked around the block, and inflation became stagflation, i.e. inflation in a stagnant economy.</td>
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<td>1982</td>
<td>Inflation was over 10%, unemployment was over 10%, and the interest rate reached 17% on home mortgages. <em>(<a href="http://www.miseryindex.us">www.miseryindex.us</a>; Freddie Mac)</em></td>
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<td>2009</td>
<td>Unemployment is at 8.5%, there is no inflation, and the home mortgage rate is 4 3/8%. The Stock Market dropped 57%, but it has recently risen from a low of 6400 to over 8000. <em>(U.S. Department of Labor; Yahoo Finance; <a href="http://www.usinflationcalculator.com">www.usinflationcalculator.com</a>)</em></td>
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Real estate is an interesting topic right now, because it totally depends on which side of the fence you’re on. If you are trying to sell, you may be pretty frustrated; if you’re looking to buy, you’re dancing in the street!

Let’s deal with it head-on. Yes, foreclosures have been up lately. A lot of families who bought their homes with nothing down or stupid interest-only loans got stuck in a bad market and are losing their shirts. For a while this spring, it seemed like all the news media talked about was how bad housing was in America. But here’s the truth: 60% of the foreclosures occurred in only five states.

You see, we’re not dealing with a nationwide foreclosure catastrophe. It’s more localized. If you’re in Nevada, Florida, Arizona, California or Colorado, then you may have some trouble selling your house. If you’re not in those areas, things may still be tough, but it isn’t worth the panic that we’ve been seeing all over the news.

Dave firmly believes that real estate will be the area that leads us out of the recession. It’s happened before, and it will likely happen again. One of the reasons is pent-up demand. Think about it. Even though it’s a hard time to sell a house, people are still moving. They get transferred in their jobs or take a new job in a different city or need to move home to take care of their families. Life happens. Life doesn’t stop happening when the housing market takes a hit.

That means there are a lot of people out there right now who need a house. They may not be buying right now out of fear, or because they’re trying to sell their old house. But a whole lot of people are ready to buy and are just waiting. Eventually, the demand will build and the dam will break. At that point, the market will get hit with a wave of buyers ready to go.

This is exactly what happened in 1984 when Dave was selling homes. The nation was coming out of ridiculously high interest rates and inflation, and Dave sold 78 houses in one high-end subdivision at about 14% fixed-rate interest. People had held off on their home buying for so long, Dave got caught in the flood of buyers!

The housing market is flooded with inventory right now, which has kept prices low. However, the cost of new houses really hasn’t changed much, because the cost of construction materials hasn’t changed. So, as the available inventory starts to burn off, prices will start to go back up because they’ll have to compete with the higher new home prices.

Now, if you’re a buyer, then this is the best time in 30 years to buy a house! It is a buyer’s market. There’s a ton of inventory, prices are down, and interest rates are shockingly low. But no matter how good the deal is, you should not buy a house if you’re broke! You aren’t ready to buy unless you’re out of debt and have a full emergency fund of 3–6 months of expenses.

The best way to buy is with the “100% Down Plan,” paying cash for the whole house up front. Yeah, we know: That’s really weird! If you can’t do that, though, then you’ve got to have a good down payment and be able to afford a 15-year fixed-rate mortgage with a payment of no more than 25% of your take-home pay.

So calm down, take a deep breath and a cold shower, and get your life in order first. Then, when you’re ready, that house will really be a blessing and not a curse!
Most people we work with have never heard the phrase “manual underwriting” until they get plugged in to an FPU class or start listening to Dave on the radio. So, what does it mean? Basically, if you do the things Dave teaches, like getting out of debt and cutting up your credit cards for good, your credit score will eventually become what’s called “indeterminable.” This will leave some idle bankers scratching their heads if you try to get a mortgage!

Remember, your credit score is based on debt—how much debt you have, how much your debt payments are, how long you’ve been in debt, etc. So, when you get weird and completely debt free, your credit score is going to go into shock. With no active debt, there won’t be enough credit activity on your file to calculate a credit score, and eventually it will drop all the way down to zero. Awesome!

The thing is, though, most mortgage lenders use only your credit score to determine whether or not to give you the home loan. They don’t really look at you at all; they just care about your three-digit FICO score. So, if you don’t have a credit score because you’ve gotten your financial act together, these lazy lenders can’t—or won’t—help you.

In that case, you’ll need to see a lender who does manual underwriting. These mortgage lenders actually look at you. They take the time to see who you are, what you do, what your current financial position is and more. Sure, the process takes a little longer, but wouldn’t you rather deal with someone who knows you by name instead of by some stupid, meaningless number?

Has this changed recently due to the economy? Well, there will always be lazy lenders who don’t want to go to the trouble of manual underwriting. You don’t want to do business with those guys, anyway. We checked with our friends at Churchill Mortgage and they assured us that manual underwriting is still alive and well, and they’re approving these mortgages at A+ rates every week.

Now, this doesn’t mean that just anyone can walk into a bank and walk out with a home loan using manual underwriting. Remember, this is the way weird people do it, so there are some requirements you’ve got to live up to.

The WEIRD WAY TO BUY A HOUSE

If you can’t follow the “100% Down Plan,” put at least 20% down on your home.

Choose a 15-year, fixed-rate conventional loan with a payment of no more than 25% of your take-home pay.

Have a strong employment history and personal income to support the loan.

Demonstrate 4–6 trade lines that span 18–24 months. These are just regularly recurring expenses such as rent or homeowner’s association fees.

Also, your old credit history has to be in good shape. Even if you have a zero score, the old history is still there and impacts the loan decision. If you have an old history of late or missing payments, then you could have some problems.
The best way to buy a house is the “100% Down Plan.” That is, pay cash for the whole thing! If you can’t do that, then Dave has always taught that you should only take out a 15-year, fixed-rate conventional mortgage with a good down payment, and you should only buy a house when you’re out of debt with a solid emergency fund.

So, if you’ve been doing what Dave’s been saying, you should be fine. However, if you start messing with the requirements, like trying to put 5% down on a 30-year loan, you’re probably not going to have a good experience with manual underwriting. If you can’t meet these basic guidelines, then the truth is you can’t afford the house and we’re glad you can’t get the loan! It would break you!

So don’t be afraid of the pain. Face it. Deal with it. See what it’s showing you. Correct the problems it is highlighting in your life. Clean up the messes it is uncovering. The economy won’t be bad forever. Use this period as the year you turn your life around. Like Zig Ziglar says, “If you do the things you need to do when you need to do them, later you can do the things you want to do when you want to do them!” Most likely, there are a few things you need to do right now!

This year, put your foot down and scream, “No more! Never again! This time, I’m doing it right!” Then pick up the pieces and put your life back together again. You hear it all the time around here, but it’s true: If you live like no one else, then later you can live like no one else!

So what?

Obviously, the past year or so has been a challenge for many families. A lot of people have lost their homes, lost their jobs, and even worse, lost their hope. The good news in all of this, though, is that the recession made a lot of people take a good, hard look at how they handle their money. And what a lot of those people saw wasn’t very pretty.

If the downturn made you pay attention to your money for the first time in your life, then that’s a blessing—even if it came with some pain. Pain is like that, you know. Sometimes it just seems to hurt for no reason; other times, however—perhaps more often than we’d like to think—pain can be helpful. It is instructive. It shows us where we’ve gone off track and points us back in the right direction. That’s always a good thing.

And friends, there has never been a better time in your life to start living like no one else. Today’s the day, so get after it!