

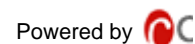
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FISHER INVES





The 2009 economy and your wallet

The new president's first job will be to repair a badly broken economy. Here's how he'll take on the four biggest challenges - and what that means for you.

By [Janice Revell](#), Money Magazine senior writer
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(Money Magazine) -- Under normal circumstances, the election of Barack Obama would have meant a lot for your wallet. As a candidate, Obama promised to shift the burden of taxes toward the affluent, get health coverage to the uninsured and slap tougher regulations on financial products.

But these aren't normal circumstances. Major financial institutions have disappeared virtually overnight. American automakers are now in danger of doing the same. Retirement funds are drying up and job losses have skyrocketed.

Forget "change you can believe in" - this is change you hope that Obama can keep up with. The new president and the Democrat-controlled Congress have more to do, and will spend more taxpayer money, than almost anyone would have expected a few months ago.

"The recession train has left the station," says Harvard University's Kenneth Rogoff, former chief economist at the International Monetary Fund. "This is about trying to prevent it from driving off a cliff."

So can the new crew head off a crash? Let's take a close look at what to expect from the government in 2009 and at how that changes your own financial game plan.

Challenge No. 1: The bottomless housing pit

One in 10 mortgages is either in foreclosure or delinquent on payments. That's costing the rest of us big-time: If two houses on your street go into foreclosure, you can shave 10% off the value of your house, says Mesirow Financial economist Diane Swonk. The home-equity bonfire has eliminated an easy source of credit - a heavy drag on an economy that has depended on consumer spending for 71% of GDP.

What to expect from Obama: Obama will be under intense pressure from both left and right to expand Washington's footprint in the housing market. That's because none of the efforts so far have had much impact. The Hope for Homeowners program, which offers banks a government guarantee in exchange for reducing the principal on mortgages, has led to just a few hundred loan modifications.

One reason: Many mortgages are serviced by firms that don't actually own the debt. Those servicers have less incentive to act - and may fear lawsuits from far-flung investors holding bits and pieces of the mortgage. "It's been like using a paper cup to bail out a sinking ship," says Mark Zandi, chief economist of Moody's Economy.com and a former McCain adviser. "We need some real big buckets."

What would bigger buckets look like? First, Obama can attack the slump in demand. The administration might pull the trigger on a proposal from the current Treasury team to finance new mortgages at rates as low as 4.5%.

To stanch foreclosures, Obama wants new bankruptcy rules that would allow judges to modify some mortgages. Many Democrats also back a plan from Sheila Bair, current head of the Federal Deposit Insurance Corporation. The government would offer a deal: If the lender lowers the mortgage payment, Uncle Sam will pick up 50% of the losses if the borrower ultimately defaults. This might require a law to shield servicers from investor lawsuits. The FDIC estimates that this could stop 1.5 million foreclosures, at a cost to taxpayers of about \$24 billion.

Some voters will find this hard to swallow. Bair's program pays out to homeowners and financial players who made bad bets, while the rest of us keep living in the houses we could actually afford. And there's an argument that home prices have to find their natural bottom. But many economists worry that the market will overshoot on the way down just as it did on the way up. "We could be looking at a death spiral in prices if the rate of foreclosures isn't reduced," says Nariman Behravesh, chief economist at Global Insight.

Even if intervention works, things will be ugly. "You can't stop the correction that is still required to offset the speculative excesses of the bubble," says economist Jared Bernstein, an adviser to Obama's campaign. "That correction is going to continue through 2009."

Your strategy if you're a seller: Obama has no quick fix. If you must sell now, move fast and be realistic. Undercut asking prices in your neighborhood, using the (lower) prices actually paid as a guide, advises Gabriel Bedoya of the real estate firm Corcoran Group. "It's a much better gauge of what people are willing to pay," he says.

Your strategy if you're a buyer: No hurry. But don't fret about trying to pick the bottom - you can get a house at a good price now if you are willing to stay put. In 2009, houses will be more affordable than they have been in a decade, according to research by UBS. And thanks to a Federal Reserve rate-cutting spree, 30-year mortgages are at an [all-time low](#).

Your strategy if you're staying put: Whatever Obama does, the Fed's rate push makes this a good time to look at refinancing.

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