A Recession Survival Kit

by Steve Waas, HMEPS Financial Counselor

It's normal for different businesses to fluctuate between profits and losses over time. But when most businesses suffer losses at the same time, for several months, it usually qualifies as a "recession." The Unted States is now in the tenth recession since 1950. The last one was in 2001. Like hurricanes, recessions are largely out of an individual's control - but proper preparations can help limit their adverse affects when they do occur. Here are several tips to help you "weather the storm."

Savings

Increasing savings is difficult because it means lowering your standard of living in the near term. Saving is even harder in recessions. One of the best ways to build savings is to make this promise to yourself - " I don't know when I'll get the next surprising inflow of money or reduced costs, but when I do I'll put part of it in savings."

These "windfalls" are rare during recessions. But believe it or not, there is a silver lining to the current hard times - a huge decline in energy prices. Probably some of your expenses are quite a bit lower than you were expecting just a few months ago. This is a windfall. Instead of spending this windfall on other things, do your best to set aside a part of it to pay off high interest rate debt, or use it to build savings.

Stocks

If you have investments in the stock market - perhaps in your deferred compensation (457) plan or in other types of accounts - the sharp decline in the market has undoubtedly been a source of distress for you. Should you change your investments? Should you get out of the market entirely?

There is no one answer that fits all situations. But this is a good time to revisit some basic questions.

Why do you own these investments? For many people, stocks are a good way to hold part of their savings - but generally only savings that they won't need for at least 5 or even 10 years. Why? Because while the long run track record of the stock market is quite good, there are frequent episodes of sudden declines - as we've just experienced. If you have a certain part of your savings that you will need in 3 years, stocks may not be the best place for that money. That's because there may not be enough time for the investment to recover from any sharp drops within the 3-year time frame.

Are your investments well diversified? If your investments are concentrated in just a few stocks or investment types, you may be taking more risk than you think.

Do you move in and out of your investments, trying to catch the highs and lows? If you do, you have lots of company. Maybe you are financially gifted and can succeed at this. But most people who try end up worse off than those who stick to a well-diversified portfolio.

Mortgage Rates

We're seeing a decline in mortgage rates as this recession unfolds. It might be a good time to review your mortgage situation with an eye toward the possibility of refinancing at lower rates. This won't make sense in all cases, but be alert for opportunities that might benefit you.

Looking Past the Recession

Nobody knows how long this recession will last. On average, recessions since 1950 have lasted about a year - but there is a lot of variation. If you're like me, when a hurricane hits you may not be quite as prepared as you'd like to be. So here's another tip: save this article. When things get better and everything seems to be going well, take it out and review it. Some preparations are easier to make before the storm. And there's always another storm, eventually.