

How Do I Prepare for a Recession?

In recent weeks, there's been a lot of talk about a potential recession on the horizon. If you're concerned about how an economic downturn might impact you, read on for some practical advice on safeguarding your financial well-being.

What is a recession, and how does it affect people?

The word "recession" can be tricky. People define it in lots of different ways. But technically speaking, a recession is two consecutive quarters of negative GDP growth, or negative economic output. Of course, there's the technical definition, and there's the reality of how a recession affects ordinary people. Those directly impacted by a recession are people who lose their jobs or have their hours cut, or who have a hard time finding a job. The indirect effects of a recession, though they aren't quite as severe, affect many more people: the impact on stock market investments and 401(k) retirement accounts. Typically, there will be periods of negative returns in these portfolios anticipating or following a recession because of the way that the market behaves in the short term. From a portfolio management perspective, trying to predict exactly when a recession comes is a fool's game. It's much better to ready yourself and your finances now, so that if and when a recession does come, you won't be forced to draw on retirement savings or take on excess debt.

How to protect yourself against a recession

Approximately 8.8 million jobs were lost during the Great Recession of 2008, and countless numbers of people saw their hours cut or opportunities lost. The next recession may not be as severe, but will most certainly affect some people. Rather than having to respond to the negative impacts of a recession once it happens, take the time to protect yourself in advance by:

1. Starting to save now: Unemployment insurance can only take you so far, so make sure you have

enough savings so you can withstand some time away from work. Three to six months of wages saved is a good amount to shoot for, but the right amount is different for everybody. Choose a savings goal that's reasonable for your finances. Having a little bit of savings for the unpredictable is solid financial advice, not just for a recession, but for life in general.

2. Seeking out education and training: Invest in yourself. It's the best investment you can make. You don't necessarily need to go (or go back) to college and get a degree, but take as many opportunities as you can to develop your skills. If your industry is affected by a recession, having additional skills will allow you to pivot and ensure you continue to have adequate employment.

Preparing your portfolio for a recession

In all likelihood, you won't be directly impacted by a recession. But your stock portfolio or 401(k) plan could be. That's why it's important to have a disciplined approach to asset allocation so you can take advantage of opportunities in the market without creating additional anxiety. If you pull out of the market in the face of a recession, you might regret it – missing just the best 10 days of over the last 20 years would have cut your portfolio return in half, and if you missed the best 20 days you would have lost money. Though you shouldn't bow out of the market entirely, taking on more risk in the teeth of a recession can be nerve-racking. Sometimes, it's best to think about investing in terms of a peaceful night's rest: if the performance of your portfolio is making you lose sleep, maybe you should reduce your exposure to risk. When managing our customer's portfolios, we will often make small tweaks over time to harvest and protect their gains. For example, after a period of growth in the stock market, we might sell some shares and place the funds in risk-free assets like bonds. Though there has never been a 20-year period where stocks have underperformed versus bonds, trimming some of the "fat" from our portfolios lets us feel more comfortable about our finances during a recession, and we can use those assets to buy stocks at better values afterwards. Ultimately, it's better to position your portfolio in a way that makes sense for your individual circumstances rather than for a recession. The key is to think about your situation in life, the financial goals you're trying to achieve, and your tolerance for volatility.

When considering these factors, it can be helpful to speak with an **investment expert** to develop an approach that best suits your situation. We're here to make your financial dreams a reality, even (and especially) through a recession.



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