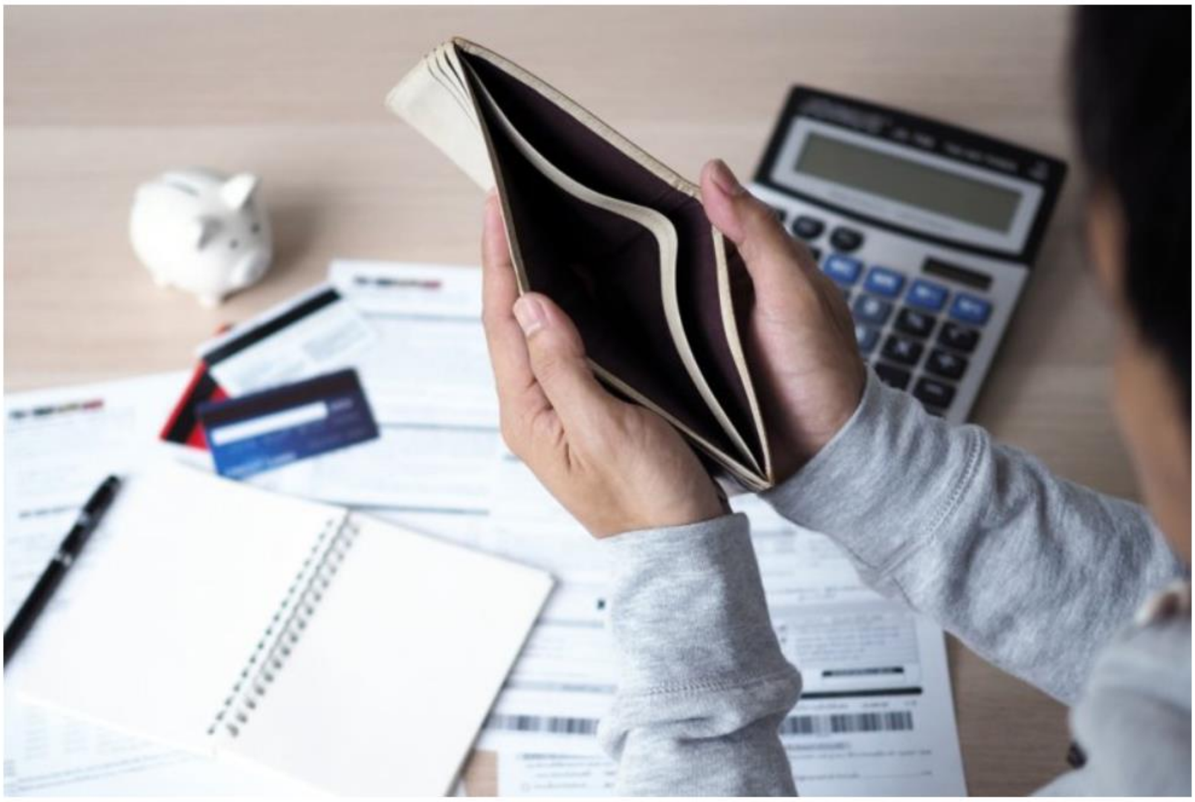
Worried About a Recession? How to Prepare and Protect Your Finances

By Simon Zhen Updated: May 11, 2020



Recessions don't happen often, so the first instinct might be to panic when there's the threat of one.

A **recession** is a period of significant economic decline that lasts for at least two consecutive quarters.

This decline affects various economic factors such as income, employment, retail sales, and manufacturing. Recessions also have a negative impact on the gross domestic product (GDP) growth rate, which refers to the market value of goods and services.

With that said:

You shouldn't panic over a looming recession, but you shouldn't ignore it either. Your ability to weather an economic downturn depends on what you do now.

There's no way to know if or when a recession will hit, or how bad it'll be.

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Nevertheless, there are a few ways to prepare—just in case.

1. Strengthen Your Emergency Fund

A recession affects job security, so job losses are common during these periods.

Some occupations are affected more than others. And if your field or employer feels the effects, this may result in layoffs, reduced overtime, or your company might eliminate bonuses or scale back on benefits.

For example, in an effort to save money your employer might stop offering paid health insurance. And as a result, you'll have to pay more out of your pocket for coverage. Or, your employer might stop reimbursing certain job expenses in an effort to save money.

These changes can hit your pocket hard.

So one of the smartest things to do before a recession is beef up your emergency fund.

To do so, think about cutting down on expenses. This includes eating out, traveling, entertaining, and shopping less.

Aim for at least a 6- to 12-month emergency fund.

In the event of a job loss or having to pay more for benefits, an emergency fund helps keep your head above water until the economy recovers.

2. Find a Side Hustle

It might also be a great time to look for a side job or a side gig. Money earned from your hustle can go toward increasing your emergency fund.

If a recession affects your employment—either due to a layoff or reduced hours—**a side gig can also provide supplemental income** to survive tough times.

Look into freelance work and consulting work. Research ways to secure additional streams of income.

If you're really worried about the threat of a recession, consider getting a roommate if you live alone. Another person sharing the cost of your mortgage/rent and utilities frees up cash, which you can then add to your rainy day.

3. Clean Up Your Resume and Remain Marketable

Since a recession can affect employment, keep your resume up-to-date.

If you've taken any classes or workshops to learn new skills, include this information on your resume.

Also, **make sure your current skills are up-to-date to remain marketable**. This isn't only beneficial when looking for a new job, it can help you keep your current job.

If your employer has to lay off workers, they're likely to keep employees who have the strongest, most versatile skills. So now's the time to look into professional development

This can include learning new software programs or a foreign language. Or, you might look into courses related to project management, sales, customer service, and other business skills.

So:

Sharpening your skills increases the likelihood of keeping your job and makes you a better employee.

And in the event that you are laid off, strong skillsets make you a more attractive candidate for other jobs.

4. Start Networking

Of course, you don't have to wait until an actual layoff to start networking and putting out feelers.

If you believe that your job might be in jeopardy, start aligning yourself with companies or groups that need people with your experience and skills.

Use LinkedIn to connect with hiring managers in your industry, attend alumni networking events, or join other local business groups.

Always be ready with an elevator pitch to sell yourself. This is a quick synopsis of your experience and background—in 60 seconds or less.

5. Pay Off Debt

The less debt you owe, the easier it'll be to ride out a recession.

That's less money out of your pocket each month, plus you'll save on interest payments.

To get rid of debt, you'll need to stop using credit cards and stop applying for new loans. If you're in a position to stroke a check and wipe out your debt, do so. But only if you have enough in your emergency fund to survive a job loss.

If you can't afford to pay off debt in its entirety, increase your minimum payments and **come up with a debt payoff plan**.

Take a look at your spending to see where you can cut back, and then apply the savings to your debt.

If you look for side work, income earned from this job can also go toward paying off your debt. So if you have $3,000 in credit card debt, and you're able to put $400 toward this debt each month, you can pay it off in about 7 1/2 months.

Once you've paid off the debt, funnel this money into your savings account.

The fact is:

Getting rid of debt saves money in the long run, and **it can increase your credit score**.

In which case, if you need to borrow money in the future, you'll likely qualify for a low interest rate. This reduces how much you pay in finance charges.

6. Consider a Dollar-Cost Average Investment Strategy

If you want to invest, but don't want to dump a lump sum of money into the market at once (in case of an economic downturn), a dollar-cost averaging investment strategy can help minimize your risk.

The goal of the strategy is simple.

To reduce the impact of volatility by **consistently investing a fixed amount of money in a particular stock or fund at regular intervals**.

An example:

Let's say you have $200 to invest monthly. You'll do so every month around the same time, regardless of market shifts or activity.

You're essentially putting your investments on autopilot, which takes the emotion out of investing.

And as a result, you avoid investing all of your money when prices are at a high point.

This practice allows you to buy more shares when prices are low and fewer shares when prices are high.

This strategy not only makes investing easier for the average person, but it's also a great strategy for building your savings over a period of time.

7. Review Your Investment Portfolio

The threat of a recession is also an excellent time to take a closer look at your investment portfolio.

The idea is to see where you can make adjustments to help offset periods of volatility.

Basically, you want to **confirm that you have a diversified portfolio**.

This includes making sure that your 401(k) or IRA doesn't invest too much in stocks. This is especially important if retirement is right around the corner and you can't afford to lose your savings this late in the game.

There's plenty of ways to protect your investments, including:

- Schedule an appointment with your financial advisor.
- Discuss possibly including investments that have a history of weathering market declines.
- Ask about general recommendations for maintaining a more balanced portfolio.

Some investors get nervous over a looming recession or when the stock market becomes volatile.

Fear gets the best of them, and they take their money out of the market and opt for safer investments like bonds.

But while an economic downturn can cause the value of a stock portfolio to decrease, it's important that you maintain a long-term perspective when investing.

The truth is:

Historically, markets tend to recover and stocks tend to appreciate faster than bonds and other investments.

Bottom Line

Fortunately, there are often warnings or predictions of a recession before it actually happens.

So in most cases, there's time to prepare.

- The **best thing you can do** is heed the warnings and take steps to prepare.
- The **worst thing you can do** is panic and make impulsive money moves.

If you need advice on how to rebalance a portfolio, speak with your financial advisor.

In the meantime, take measures to improve your overall financial health.

The threat of a recession isn't the time to stick your head in the sand. The more steps you take before a recession hits, the easier it'll be to survive.

About the author Simon Zhen

Simon Zhen is the senior research analyst for MyBankTracker. He is an expert on consumer banking products, bank innovations, and financial technology. Simon has contributed and/or been quoted in major publications and outlets including Consumer Reports, American Banker, Yahoo Finance, U.S. News - World Report, The Huffington Post, Business Insider, Lifehacker, and AOL.com.

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