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Personal Financial Plans Can Blunt Effects of an Economic Recession

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PERSONAL FINANCIAL PLANS CAN BLUNT EFFECTS OF AN ECONOMIC RECESSION

DAYTON, Ohio--Having a personal financial plan--one with goals and clearly defined actions--is a good way to protect you and your family from the effects of an economic recession, says Bernard Winger, professor of economics and finance at the University of Dayton and co-author of Personal Finance, An Integrated Planning Approach.

"If you think the nation is going into a recession, then you ought to be thinking about how that influences your financial planning," said Winger. "The surprising answer I've come up with is, if you've been doing responsible financial planning all along, you should go on saving and investing as usual. To do otherwise presumes that you can predict the economy, and not even professional economists can do that.

"This applies to someone who has a reasonably secure job and, even in a recession, could be confident that his or her income would remain constant or decline by only a percentage point or two," he said. "Nine out of 10 people should be able to continue their investment, saving and consumption habits with only minor changes."

The one person out of 10 most likely to be drastically affected by an economic downturn is someone with four or five years in the

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work place. "Recent college graduates may have good jobs, but they may not be as secure as they think," said Winger. "In general, the older workers are better protected than the younger ones."

For those who may face a serious loss of income, Winger has outlined some steps to take now.

"You should be darn sure you have sufficient liquidity," he said, "equal to three to six months of expenditures. And that applies to all economic cycles. If you have stocks or real estate you can sell, you can put that money into a money market mutual fund, for example. But I wouldn't tamper with other investments if you have sufficient liquidity.

"I would also recommend paying off any credit card debts. Anybody who pays 18, 19 or 20 percent interest on credit cards is going to find it hard to have any savings. A good lesson to learn from a recession would be to throw your credit cards in the garbage can and never renew them.

"Budgeting also becomes important," Winger continued. "You need to get a handle on where you are and what it takes to live for a month. Then you look to see what you can cut, such as entertainment costs or eating out in restaurants. Planning becomes extremely important if you think a recession might affect you dramatically."

One option might be to take an adult education course in another field to learn a skill that could generate income. "A recession might be an ideal time to follow through on another interest," said Winger.

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"You could enroll in a class in automotive repair or take a course in sales. Learning plumbing or electrical skills could also be a way to avoid large repair bills in the event you are laid off from work. But you should do it now rather than wait until you're fired or laid off. It's a way to gain more control of your life, even if you never use those skills.

"Make no major purchases" is the rule for those who think they might be hurt by an economic downturn, said Winger. "But there is opportunity in everything, even a recession. If you could get through a recession without a loss of income, then it might be a good time to buy a car or build an addition to your house. You may be able to buy a new home for 20 percent less than it would have cost a year ago."

He cautions against manipulating your stock portfolio in reaction to the economic news. "It's best to accumulate a well-diversified portfolio and then leave it alone," said Winger. "Anyone who tells you to sell your stocks because we may face a recession is giving you terrible advice. People who try to react to economic news do much worse--not moderately worse, but much worse--than those who continue a 'buy and hold' approach."

In the end, Winger said people with secure employment and a sensible financial plan should carry on as normal. "Financial planning should not be adjusted to cycles or seasons. Reactive financial planning is not good financial planning."

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For media interviews, contact **Bernard Winger** at (513) 229-2410.