How to Survive (and Thrive in) the Current Economic Crisis

Let's Review the Problem

Current economic conditions are, to put it mildly, not so good. Those who decide such things have determined that the U.S. is in a recession. Those of us who have been trying to make it through the last year or so, need no such confirmation. Things are tough. The bad news: things are likely to get a bit tougher over the next several months. The good news: there are ways to cope, and position yourself to take advantage of the recovery when it comes.

From an investing standpoint, if history repeats itself at all, the stock market is likely to begin recovering before the broader economy. It always has, so there is a good possibility it will do so again. This probably means that now is a good time to start looking for prudent investments. The market, on the whole, is inexpensive. The key to good investing is in picking sound investments and buying them at a time when they are not over-priced. If you need help doing this (and many people do), a qualified financial advisor can provide significant assistance.

Looking at the broader situation, we are likely to remain in a recessionary environment (translated: not much – if any – better than now) for at least two or three quarters. A number of economists are suggesting that we should not be surprised if the entirety of 2009 is at best, so-so economically. The wild card in all this is the impact of federal initiatives. If they are successful, we may see positive movement later this year (remember though, these things generally don't happen quickly).

Now, What Can Be Done?

So what can the average individual do to survive the current mess? First, and probably foremost, is to recognize it is a mess. A wide-ranging economic debacle that was caused by a complex interaction of events. While it may be normal to point fingers and try to place blame, it is not a particularly constructive exercise. Additionally, now is definitely not the time to stick our head in the sand and hope we will not be adversely impacted by the domestic - and global - economic crisis. We will be effected. Probably already have been affected, and without positive action, we may have difficulty surviving - at least in the fashion we desire.

That said, here are some steps that can be taken to survive the current economic mess.

1) Get back to basics. Many of the foundational personal financial principles were developed over time to reflect a sort of best practices. When the economic environment is overwhelmingly positive, it *seems* to make sense to set aside those principles. Case in point - housing. A long-standing bit of advice is to limit housing expense to no more than 28% of gross income. During the last several years, this advice was widely ignored. Why bother, when you could by a house with almost no money down, live in it for a few months, and sell it for a significant profit? Now, we have a global economic meltdown caused, in part, by the fact that many Americans ignored this sold, safe, but untrendy principle. Making lots of money on the investment du jour sounds like fun. Losing your house to foreclosure is as far from fun as you can get. The moral? Get back to sound financial basics. If you don't know what those are, do some research. Talk to an advisor. Get the information and start applying it.

2) Don't panic! We almost always get into trouble when we unthinkingly follow the crowd. Mass hysteria and mob dynamics are no place to be if you want to survive and thrive in the current economic mess. Are your investment returns in the tank? Ask yourself, "Do I have a well-structured investment portfolio that is balanced and built on quality investments"? If so, stay the course. Investing for the long term means sometimes you're on top and other times you're not. However, if your investment strategy is sound, you will be in a good position as the economy turns around.

3) On the other hand, if your investment portfolio is filled with junk, now may be the time to get some solid advice on how to reposition yourself. Will it be painful? Probably. Think of it as surgery to correct a significant problem. Done well, the pain is short-lived compared to the long-term gain.

4) Stop overspending and start saving and investing. If you are not sure where to invest, consult a reputable advisor. If you don't want to do that, at least put your money in an FDIC insured bank. But save! Over spending is another reason why many people are experiencing financial distress. Now is a good time to bring things back into balance. Start paying down your debt as much as possible, and don't reload those credit cards after you get them paid down. Banks have reduced (or are considering reducing) credit limits for many, if not most, people. The way to protect yourself against suddenly being over your new, reduced credit limit, is to pay down the debt.

5) If you have a cash reserve, hang on to it. If you don't have one yet, start building one. Planners call this an emergency fund, and the emergency can be anything from having to put four tires on your car to losing your job. This is somewhat different from the previous point, in that this is money that is held as a liquid reserve in case you experience a negative situation. With an adequate cash reserve, you won't feel quite as lost when you have to buy a new refrigerator, because the old one just quit, and you have no more credit.

6) Forget about the Joneses. It was never worth keeping up with them in the first place.

7) Resist the temptation to plunder your 401(k). You still need to retire someday and the money you remove today is money that will not be available when you need it later. However (and this is a **big** however), if you absolutely need the money to keep you afloat, don't be afraid to take advantage of your 401(k) lifeline. Most plans allow for hardship withdrawals which can be used when you have run out of other options. The withdrawal will likely be taxable and you will probably have to pay a 10% penalty, but as a last resort, it's there. You may also be able to take a loan, which should not be taxable as long as you repay it. Remember though, these are options to be used cautiously and only as a last resort. Getting qualified professional advice is not a bad idea.

8) Don't give up hope, and don't quit. It may look bleak, and you may be in significant financial distress. However, solutions almost always exist, and broadly speaking, economically, we have been in this neighborhood before. The specific causes of the current economic melt-down may be unique, and the downturn unusually severe, but we have experienced a number of other significant economic downturns and recovered.

Is There a Way to Actually Thrive now and in the Future?

Yes, there is. In addition to following sound personal financial planning principles, there are some steps you can take to thrive in our current and future economic conditions.

First, do some careful evaluation before plunging into new equity investments. We probably have not seen the bottom of the market, and we're not precisely sure where things are going to stabilize. This is a good time to pay attention, and perhaps cautiously begin making new investments.

However, as the market stabilizes, we will be entering into a period where careful investors can benefit. The old idea of buy low and sell high is an investing truth. In periods like we now have, buying low becomes much easier to do. Strong companies whose stocks are well-priced (read that as lower than they should be based on the quality of the company), can represent true value and provide solid investment returns. At the same time, the fixed income (bond) side of the house may also provide a reasonably safe place to generate income and preserve capital. Remember that bonds require at least as much investigation and evaluation as stocks. It's also possible that some select alternative investment vehicles may provide positive real returns.

The key question is what to buy, and when. That's where a knowledgeable, experienced financial advisor can provide real value. Make sure that the advisor has the experience, education and overall expertise to get the job done. Be VERY careful to check out their credentials and regulatory background (you don't want a rookie, and you don't want someone who has been in violation of relevant regulations). As an example of what to look for, advisors who hold the CFP® designation are bound to abide by a set of professional standards of practice and a code of ethics. They are also subject to oversight by CFP Board, and if found guilty of wrong-doing, can be stripped of their designation. Of course, this does not guarantee that a CFP Board designee will not do wrong, but it does provide an extra layer of safety (remember, you can, and should check the disciplinary history of any advisor you are evaluating). So, it is most probably in your best interest to look for an advisor that functions at a fiduciary level and who voluntarily agrees to be bound by a high ethical standard. Again, no guarantees, but definitely helpful.