# Make yourself recession-proof

We may be in a downturn but you needn't be in the doldrums this year. Finance Editor Susanna Stuart explains how to stay covered

**ARE WE IN A RECESSION OR** a depression? And how bad can the economy get? These are two questions I'm hearing frequently as a financial adviser.

In answer to the first, we're definitely not in a depression, even though the comparisons between 1929 and 2009 look superficially similar: In 1929 in the US, automobile sales slowed down 33%, last year auto sales slid by about 20%. Before the share market crash of 1929 the construction market declined sharply, retailers began slashing prices to boost sales and unemployment started to rise noticeably from very low figures. Sound familiar?

Today unemployment is the biggest single economic threat to families, and lay-offs here and in the US could potentially take unemployment to about 10%. But let's not forget that in 1932 in the US, unemployment stood at 25%: One worker in four was without a job. Many people were even having to make clothes out of cloth sugar bags. I can't see us getting anywhere close to that this time.

The big difference between the economy 80 years ago and that of today is that economists and governments are better equipped to deal with downturns. Today's situation is serious, sure, but I don't believe it will ever get as bad as it did in our grandparents' day. Still, it pays to have a few strategies to make yourself recession-proof.

**First priority – make yourself as employable as possible:**

- Learn new skills. If you're in a declining sector (think how clerical jobs have been shifted offshore), now's a good time to develop additional skills, either through internal training, if your employer offers it, or by learning in your own time. Consider night school or weekend classes.
- Polish up your CV. Be ready for the worst-case scenario, especially if your employer is rumoured to be cutting back.
- Shine at work. It's a good time to show you're motivated.

**Second priority – protect yourself against risk:**

In a downturn good companies can go bust, and banks can hike interest rates or even recall loans. So build a financial buffer so you can survive an economic shock.

- Build your cash reserves. My rule is to build enough to cover at least two months of household expenses. Keep this in an easily accessed bank account.
- Get rid of debt as fast as you can to reduce your exposure to risk. It's hard enough to lose a job; it's doubly hard if you also have credit card payments to make.
- Diversify your income. If, say, you're on a salary, are there hobbies you can develop to earn income, or can you rent out a room? If you're retired, don't invest everything in interest-bearing assets; include some dividends from share investments.

**Third priority – reduce your running costs:**

- Plant (and enjoy!) a productive garden.
- Spend time, not money, on family activities.
- Review your expenses. In my household we're down to one car; it hasn't made much difference at all to our lifestyle but it has almost halved our transport expenses.
- Trim away the 'nice to haves' from your weekly spending. Put the saving back into that emergency fund.

**Fourth priority – re-examine your goals:**

Often it takes a change in circumstances for us to realise where we most want to head in life. If you are learning new skills, or reviewing the way you and your household live, then that's a really good outcome.

In my view the downturn will last another 20-24 months. I could be wrong, but in the mid-1970s the global economy was in recession, and was booming again by 1981. After the 1987 crash, the doom and gloom was over by 1990.

When I talk to older clients who remember the depression, they always mention how important friends and family were. So this is a good time to invite friends over for a fun night in. The sound of laughter can help you weather even the gloomiest of financial times. ➜

## Look for that silver lining

**Economic psychologists note the human responses to upturns (when we seem to park our common sense and go on a foolish spending spree) and to downturns (when we're steeped in caution, often missing the real opportunities that are in front of us). So this year take stock, aim to protect yourself from the worst, but also don't miss out on opportunities to use the conditions to your advantage. Happy hunting!**

1 Look out for falling interest rates. With a slowing economy the demand for money to borrow dries up and interest rates tumble – the ideal time to boost your mortgage repayments! If you're on a floating mortgage rate you probably won't wait long before your rates start to fall. Don't reduce repayments; focus on reducing the principal instead. If you pay monthly, switch to fortnightly repayments. Use the lower rates to your advantage.

2 Time for investors to buy low. During a recession investors can get unnecessarily gloomy and prices of even excellent investments can tumble. Now is the perfect opportunity to invest in quality shares: Focus on companies that make things that people need.

3 Now affordable: Those things you really need. The market may not be great for retailers just at the moment, but conditions are right if you need to buy significant appliances or even a car. However, don't throw away your sense of caution. Do your homework, read the consumer reports and shop around. Time is on your side.

4 There's less need for borrowing. One reason consumers get into spending grief is that prices always seem to go up. So we borrow today because we know that the things we want will be less affordable tomorrow. With the inflationary escalator turned off, this is a good time to save up before you buy. The pay-off: No ugly credit card bills.

5 It's gloom for some but boom for others. It's a mistake to think that every economic trend affects everyone the same way. Internet and green technologies are growing, as are personal wellness professions, whether counselling or healthcare. There are good business and employment gaps out there, and they're just waiting to be filled. N

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