Get Your House in Order

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When it comes to financial planning, we try to focus on what we can control. We can't control geo-political events, wars and rumors of war, interest rates, inflation or Black Swan events that scare the pants off investors. On the other hand, we *can* control how we react to these uncontrollable macro factors. Strong companies manage for all weather – keeping debt to asset ratios low, holding short term liquid investments for a rainy day, and spending less than they earn. Households like us should be managed no differently. Further, we continue to believe the Fed will eventually break something in the economy as quantitative tightening continues. As a result, we could end up in recession and companies could process mass layoffs. Given all the uncertainty, we recommend families take the following action items:

#1 – Pay down debt: Leverage can amplify returns in good times but can be disastrous during bad times. We recommend paying off high interest debt like credit cards before tackling lower interest debt like mortgages. In general, we want our clients to be debt free at retirement. Becoming debt free creates freedom and reduces operating leverage. For example, not everyone lost their home in 2008/2009, only families with excessive leverage.

#2 – Spend less than you make: It seems obvious, but debt is a simple math problem. If your expenses exceed your income, you'll be forced to borrow more and more money over time. There's only two ways to right size your income statement – make more or spend less. For folks struggling to make ends meet right now, we recommend staying active in the job market, looking for opportunities to increase income, especially while times are good. Don't wait until a recession to try and increase your income. On the expense side of the equation, evaluate your monthly credit card statements and look for ways to cut spending on unnecessary items. For example, buying coffee/lunch every day or subscriptions to unutilized services. We also recommend tracking expenses through our Right Capital financial planning portal to better understand where your money goes every month.

#3 – Build a cash reserve: While paying down your debt, make sure to also pay yourself, meaning set aside a re-occurring monthly deposit to a money market or bank account. Young investors without a family should have 3-4 months of liquid cash available and mid-career investors with children should have access to 6-12 months of liquid cash and short-term investments. Retirees should have at least 2-3 years of expenses set aside in short term Treasuries and cash. As you approach your 70's and 80's, we typically target 5-7 years.

#4 – Keep your resume/network updated: Before a recession strikes, make sure you have your resume updated and are keeping your professional network in the loop on your career status. We recommend staying active on LinkedIn in case the need arises to make a move. It's also wise to assemble your advisory team during these times, including your financial advisor, tax professional, estate attorney, insurance agent, recruiters, etc. These professionals can help you put a plan in place so you can be proactive, not reactive.

#5 – Buy stocks when they're on sale: Every few years stocks enter a significant correction or even recession. The time to buy is when the news is bad, not when its good. We recommend working with a fiduciary financial advisor who can help you rebalance your 401(K) and investment accounts to best take advantage of downturns. Its during these downturns that we earn a significant portion of our long run return.

Despite the doom and gloom, we don't think the world is ending any time soon. Volatility is the price we pay to own equities, not a reason to panic and jump ship. Acting on these five recommendations well in advance won't completely insulate you and your family from downside, but they will serve as a ballast during choppy waters, so you don't fall overboard your long run plan.

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