June 20, 2011

DailyFinance
An AOL Money & Finance Site

How You Can Prepare for a (Possible) Double-Dip Recession

By Sheryl Nance-Nash

Daniel A. White
Founder and President
Daniel A. White & Associates

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Is America headed for the Great Recession, part two? The talking heads are still in heated debate, with experts coming down on all sides of the issue. But for those of us who aren't pundits, there's a more important question: What should we be doing now, just in case economic lightning does strike twice?

The uncertainty in the air has created confusion. On one hand, many people continue to focus on saving and reducing personal debt. But on the other hand, despite the fact that 40% of Americans surveyed in the First Command Financial Behaviors Index said they expect the economy will fall into a depression, a growing number of middle-class families are taking out new loans: 43% of those surveyed said they have taken out at least one new loan in the last 11 months.

"This growth in borrowing is an unexpected turn in what had appeared to be a relatively straight road toward debt reduction," said Scott Spiker, CEO of First Command Financial Services, in a prepared statement.

Then there's the just-released Q1 2011 Credit Card Debt Study from CardHub.com, which revealed that consumers paid down 26% less credit card debt than they did in the same quarter last year. CardHub.com projects that consumers will end 2011 with $20 billion more in credit card debt than they started with.

"The implications of this increased spending, should we indeed double dip, is that the impact of the recession is going to be magnified exponentially. The increase in spending will push consumers over the edge much more quickly and will make it much harder for them to stay out of serious trouble," says Odyssea Papadimitriou, CEO of CardHub.com, a credit card comparison site.

Preparing for the worst: A Checklist

For all the crystal-ball gazing, nobody knows for sure what's coming next. If you do nothing, you increase your odds of getting caught like a deer in headlights should the economy tank. However, if you prepare for the worst, even if it proves unnecessary, you're likely only to improve your financial situation in the process. Here's where you should begin:

Pay attention to interest rates: The first sign of trouble is likely to be short-term interest rates starting to tick up. "If you see that happening, reduce your exposure as soon as possible," says Daniel White, president of Daniel A. White & Associates. "If you're retired or about to be retired, pay particularly close attention to the subtleties in the marketplace. Think ahead and make plans for what to do when the music stops."

Rethink stocks: Reduce, but do not eliminate stock exposure, says Peter Tanous, co-author of *Debt, Deficits, and The Demise of The American Economy*. "I would concentrate on two areas, own high quality, blue chip stocks that pay dividends. In an uncertain environment, you want to own companies that will always be around. Also own emerging markets stocks, but be aware that these will be volatile and more risky, and keep in mind that emerging markets are where the future growth is going to come from. In either cases, buy funds, either index funds or actively managed ones, in order to avoid concentration and the additional risk of only owning a few companies."

Further, if you want to continue holding equities, allocate assets to stable companies in utilities, health care and consumer staples, while lightening up on the consumer discretionary, industrial and financial sectors, advises says Jay Ferrara, economic strategist and investment manager for Farmers and Merchants Trust Co.

He adds that in a double dip, U.S. Treasuries would be viewed as relatively safe, just as they were during the recession of 2008. "Their prices would go up while the corresponding interest rates would fall, says Ferrara, who notes that this is happening now: 10-year Treasuries yield 2.92% and the 2-year T-bill hit a record low overnight.

Diversify your assets: The secret to reducing risk is to diversify. Portfolios should not be too concentrated in any geography, industry, or currency. Decide how much risk you can take. The single most important thing you can do is decide how much risk you can afford to take, says Todd Millay, managing director of Choate Investment Advisors.

Tame your wild side. "Don't make big bets, because you might just be wrong," says Tanous.

However, "Don't limit yourself to just stocks and bonds. That's so last century," says Tanous. "Today, you need a dedicated allocation to real assets and some commodities." Consider too, adding more cash or cash equivalents such as money market funds, short-term CDs, or low-risk bonds to your asset mix, suggests Ray Brastow, professor of economics at Longwood University.

Consider hard currencies of other countries with better balance sheets than the U.S. "They can provide a buffer from a declining U.S. dollar," says Rose Greene, a certified financial planner with Rose Greene Financial Services. "Including global bonds from countries that are paying a higher rate than the U.S. is not a bad place to hide as well."

Quite simply, adds Millay, "Decide how much risk to take, use diversification to take this risk as productively and responsibly as possible, and stick with the plan, particularly when you feel scared or greedy."

Shore up your cash position: It is important to have strategic cash reserves. Start saving now so that if things do take a turn for the worse, your spending needs can be covered. "Strategic cash allows you peace of mind, flexibility and the ability to ride the downs without having to sell at the bottom," says Adrian Cronje, chief investment officer of financial services firm Balantine.

Building a nest egg, no matter what size, is a strategy that should always remain in vogue, says Ferrara.

While conventional wisdom suggested you should save 10% of your income, the new thinking says go for 15% or more. You want to have an emergency fund of at least six months to fall back on. The recent tough times taught everyone just how much back up is needed when a recession is long and deep.

Spend wisely: "Get your spending under control and make smart spending a priority," says Ted Hunter, author of *Money Smart: How to Spend, Save, Eliminate Debt, and Achieve Financial Freedom*. His advice: "Negotiate down prices on everything, including interest rates and fees. Group your Internet/cell/phone/TV into one service, [and] get rid of expensive features like call waiting. Make a monthly spending and saving plan, price shop, shop from a list, and don't spend more than you make."

Some experts say if you're in the market for a house, rent, don't buy. Indeed, think twice about upgrading to a more expensive home or car. "Unless you are completely confident in your job security and future earning power, it does not make sense to start adding monthly expenses like a car payment, or to undergo home renovations or upgrades, especially given the state of the housing market," says Keith Davis, a certified financial adviser with Farr, Miller & Washington.

Reduce debt: If you're like many people, you've been doing your best to pay down those bills. Step it up a notch. "Cash flow is the most important characteristic of surviving any additional economic pullback associated with another double dip," says Ferrara.

And, quite simply, "Do not take on more debt," says Ferrara.

Homeowners should look to pay down their mortgages more aggressively. "Your cash is earning next to nothing right now, and if we fall into recession, rates may decline even further," says Davis. Be prepared too, to refinance your mortgage if rates fall far enough. "It usually makes sense to refinance if you can decrease your mortgage rate by one full percentage point," he adds.

While the economy could move forward full steam or sputter still further, doing nothing isn't a smart option. Says Hunter: "Don't sit around waiting for the economic recovery to happen, as it's likely to be a long way off."

Founded in 1987, Glen Mills, Pa.-based Daniel A. White & Associates is a financial planning firm specializing in asset protection and transitional and retirement planning. Through a team of knowledgeable experts, Daniel A. White & Associates provides sound counsel and comprehensive financial planning for retirees and pre-retirees in estate planning, asset protection, wealth management, long-term care solutions and wealth transfer strategies.

One of the nation's leading experts in financial and retirement planning and host of "On The Money" radio show on WDEL Sundays at 7 a.m., Daniel A. White is a Chartered Financial Consultant and Chartered Life Underwriter. For more information, please call 1.888.690.8820 or visit www.danwhiteandassociates.com.