The Impact of Recession ...

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. . . and what you can do.

I was recently asked about an oncoming recession and how it may impact my client's portfolio. Since we are in the second longest economic expansion, this seems like a good question. While there does not appear to be a recession on the near horizon, there will be a recession at some point. It may be a good time to understand what a recession is, what may happen and how you can react to it.

The Definition of A Recession

The National Bureau of Economic Research (NBER) defines it this way: "A recession is a significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income, and wholesale-retail trade." Of course, there was the long standing "two consecutive quarters of decline in the GDP.". However, as the NBER states, that missed the 2001 recession. Unfortunately, the NBER tells you after the fact that the recession has started. So, it is a good plan to know what may happen to your portfolio beforehand.

What Should I Know About A Recession?

The first thing to know is that they do not usually last very long. Since 1900, the average recession has lasted about 15 months. The most recent one lasted from December 2007 to June of 2009 or 18 Months according to the NEBR who is responsible for such data.

Secondly, recessions are a normal part of the business cycle. They may not seem good for the economy at the time, but they tend to help the economy reach new heights in the next expansion. They are inevitable.

What Should I Do Before A Recession?

First, have a plan. Many of you who have worked with me over the years have heard me talk about the "Lifeboat Drill". If you are not sure what this is, then think about a cruise. Also called a muster drill, this is an exercise conducted by the crew of a ship prior to embarking on a voyage. The drill educates the passengers in the use of the life vest as well as explaining escape routes. If you have not looked at your portfolio in relation to this, you should make time to do so.

Secondly, know your risk tolerance. The market tends to decline before a recession and begins to recover before an expansion. However, volatility can happen without a recession. We are due for some "rough seas" in the market ahead. Make sure you know how your portfolio may react.

What Should I Do Right Now?

Contact Glenn Williams, CFP® to set a no obligation review and stress test of your portfolio. This quick review and portfolio analysis can help you know what to expect when the inevitable recession arrives. It may also give you some insight into various aspects of your investment and planning strategies.

Conclusion

While we do not see one on the immediate horizon, recessions are an inevitable and necessary part of the business cycle. A good plan and the right mix of assets for any investor may help you when it appears. At Williams Financial Planning, Inc., we can help investors review their portfolios and see how they may be expected to perform in various stresses on the market. The time to know what to do during a recession is before the recession has started. Plan now and plan well. #GoodPlanGoodLife

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly.

Economic forecasts set forth may not develop as predicted.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

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