Recession-Proof Your Finances

Five Money Moves to Stay Secure in Tough Times

By Joseph "J.J." Montanaro

Gas prices are soaring, consumer confidence is falling, and stocks have been all over the map. And while the future of economies across the globe remain uncertain, one thing's for sure: most Americans are uneasy about what's in store for their personal finances.

And in the midst of it all, you're having to shell out hundreds or even thousands of dollars to relocate.

Uncertain times often lead us to make impulsive decisions. But when it comes to financial matters, it's important for service members to keep a cool head and keep the big picture in mind. Smart money management can put you in good shape to handle whatever lies ahead. Here are five strategies you can implement today and maintain after your PCS.

Assess the Situation

Before you can take action to guard against a recession, it helps to know where you stand. So set aside a few hours to take a good look at your financial situation and get organized. Gather your most recent statements from bank accounts, investments, creditors, insurance companies, etc. Work through the stack and make a list of income sources, debt, and recurring expenses. A single page summary makes it easier to spot any trouble areas.

As a starting point, make an honest assessment of your family's employment situation. Your military assignment may be secure, but what about your spouse's job? Will there be comparable jobs available where you're relocating? It may be time to update that resume and start networking to boost the odds.

Scale Back Spending

When you review your list of monthly household expenses, you're likely to find a few discretionary purchases you could probably live without. You know the ones — the premium sports package on cable TV, the magazine you never read, unlimited text messaging on your cell phone. The little things add up. And with moving-related expenses around the corner, there's no time like the present to get back to basics.

It's just as important to avoid taking on new expenses, especially big ones. Whether you've been dreaming of a new car or front-loading washing machine, sticking with your old clunker for another year will keep more cash available if hard times strike.

PCS Playbook

Everyone wants to minimize their moving expenses, but it becomes even more essential with economic trouble on the horizon. Try these moves to keep PCS from draining your pocketbook.

1. Prepare in advance for out-of-pocket expenses by saving a little cash each month leading up to the move.
2. If buying a home, get more aggressive in negotiating your home purchase by asking the seller to pick up closing costs and/or make improvements before you move in.
3. Make sure your valuable property is fully insured against loss and damages before moving.
4. Work with national or global companies (bank, insurance, satellite TV, cell phone, etc.) that move with you and won't charge new start-up fees when you change locations.

Prepare for Emergencies

Use the newfound savings from your budget review to start building an emergency cash reserve. Have part of every paycheck direct-deposited into an account until you save enough to cover 3-6 months of living expenses. If there's a job loss in the family or a major unexpected expense, this fund can be your security blanket.

A money market savings account is a good place for your emergency fund because it pays more interest than a basic savings account, and your money is every bit as accessible.

To be extra prepared, you might consider opening a home equity line of credit (HELOC) while both spouses are still employed. With a HELOC, you put up the equity you've built in your home as collateral to borrow money at a low interest rate. This could serve as another source of help during desperate times. But you should only use the HELOC if you're absolutely certain you can pay back the loan; otherwise, you could lose your home.

Destroy Your Debt

In a down economy, the interest charges you're paying on credit cards are likely higher than any returns you're earning on investments. So if you've only been slowly chipping away at your debt, now is a good time to knock off a bigger chunk. If you're due for a re-enlistment bonus or a big tax refund, for instance, consider sending it straight to the credit card company. It may hurt at first, but wiping out debt now will leave less weight on your shoulders if things get really bad.

You'll save the most money by paying off the card with the highest interest rate first.

Protect Your Portfolio

As for investing, understanding your risk tolerance becomes even more important during a downturn. Your strategy may differ depending on how soon you need to withdraw the money you're investing.

For example, if you're a young service member saving for retirement, don't stop. Historically, investors with a long time to invest have been able to count on the economy rebounding eventually. And when it has, they've had more to show for their patience.

Things may look different if you're closing in on retirement age. A severe collapse in the stock market could cripple your retirement fund just a few years before you need to start using it. So you may want to consider moving a larger portion of your portfolio into safer assets such as bonds or cash.

In any case, diversification – that is, spreading your assets over different types of investments – is a must to protect yourself from a devastating loss.

Recession or not, it's thinking ahead that will keep your finances on solid ground in good times and bad.

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