

# Economic Downturn: Finding an upside to the downside

## **1. Create a detailed and effective budget**

A budget will track where your money goes and help you identify areas where you can cut expenses to improve your cash flow. When making a budget ensure it is well trimmed but allows for the occasional splurge or you will have trouble following it over the long run.

## **2. Communicate with creditors**

If you are caught in a cash crunch due to being laid off or a temporary shortage in your hours be sure you communicate with creditors in the event you are unable to make minimum payments.

## **3. Emotions of investing**

Understand that there is a whole discipline called the emotions of investing. This studies how people behave not to financial data but rather to their emotions when investing. A market downturn can trigger these emotions and cause people to take drastic and unreasonable steps. It's important to do what you are comfortable with but ensure you fully understand the rationale behind it and are aware of the long term consequences. For example, when people see the value of their equities dropping like a stone in water a first reaction is sometimes to sell these investments and carry a cash balance until things improve. Unless the money is needed immediately, they incur losses and miss out on any future upswing in the markets.

## **4. Rebalance your portfolio**

Since the values of equities are at lows, it might be a good time for you to rebalance your portfolio and come back into an asset allocation ratio that you are comfortable with. You will be selling low but likely buying low too and as noted above, will help satisfy your emotional side by knowing you are taking some positive steps.

## **5. Asset allocation, diversification, risk tolerance**

These 3 amigos are often heard and read about but seldom practiced. A downturn in the markets can show the true value of practicing these rules. Take this opportunity to learn how you can improve your investment portfolio by implementing these three tools. By doing so, you will help your returns in the long run and also always feel as comfortable as possible with your investments.

## **6. Explore new ways to earn money**

This could include picking up some extra hours at work, finding a part time job or perhaps pursuing a part time business with something you love to do.

## **7. Appreciate extra money**

Extra and unexpected money from side jobs, gifts or bonuses should be used wisely. Take a small portion aside to splurge and do something nice for yourself but be smart about the balance. Apply it to high interest debts, top up your emergency fund or invest it.