

Money for Life

January 2009

Dear Readers,

WHAT IS A RECESSION?



The formal definition of a recession is a period of two quarters of negative Gross Domestic Product (GDP) growth. However, you don't need a dictionary to tell you you're feeling the financial squeeze. Prices for food and

fuel, two commodities you can't do without, are up dramatically. Wages are stagnant, unemployment is on the rise, and credit is harder to get.

HOW DO WE PREPARE?

Consider the following advice:

- **Make yourself invaluable at work.** It is never a good time to lose a job, but when jobs are scarce, you want to make a special effort to hang onto the one you have. Be sure to have a good attendance record, be willing to take on extra tasks, and complete projects on time. Some industries, such as those associated with housing, are more vulnerable than others, but anyone would be smart to prepare for the worst by updating their resume. Now is the time to begin networking to discover what opportunities are out there. If you are laid off, file immediately for unemployment benefits.
- **Investigate health insurance options.** If you are laid off, knowing your health care options in advance will put you ahead of the game. Many companies allow you to continue on their plan for a limited number of months. However, this is usually at a very high rate. Know in advance if you can be added to your spouse's plan, or visit with an agent about stand-alone plans. Doing so will prevent any gaps in coverage.
- **Be familiar with your financial situation.** There's nothing like seeing your financial picture in black and white. Write down all sources of income from each wage-earner in the household. Next, subtract all of your monthly living expenses, things such as rent or mortgage, utilities, food, insurance, etc, followed by secured debt payments and then other credit obligations. When times are tough, it's critical to pay priorities in this order. If your creditor is happy, but your electricity has been turned off, you've paid backwards.
- **Keeping saving for your longer goals like retirement and college, even if it is a little bit.** Continue to put money in your 401(K) or Roth IRA. It is hard to invest when the market is down. You may want to run to CDs or bank savings accounts- which are sound places to stash your emergency funds- but not your savings for long-term goals. So think of today's market as a big sale.

- **Shop naked-** leave your credit card at home and bring only \$20 in cash with you.
- **Refinance your mortgage-** consider fixing your rate. Mortgage rates are at an all time low. The best investment you can make right now is to trim your high-interest credit card debt.

Karen Cheney, *Everyday Money, Your Finances, Better Homes and Gardens*, October 2008; Leonard Langner, *Investment Centers of America, Inc.*, December 2008; Retirement: Secure your Dreams #PM 1816-1826

Also is there any more to say about investments and losses we are all seeing? – sit tight? One gentleman on the news this morning (Good Morning, America) who sold stocks said that it would be good to invest in CD's. I thought that it was interesting as he sold stocks and said that he never thought that he would be saying this. There are also conservative stocks and bonds that are yielding a good percentage rate. It would be best to talk to your broker.

Why best to leave it where it is invested? In talking with Investment Centers of America, and according to this article, it would be best to leave it where it is at now. It is like riding a wave. It can



only get so low. If you pull your stocks in and out of the stock market, then this would not be wise. It averages out over the long haul. ISU would say that it would also depend on the ages and stages that you are in retirement years. A good resource for retirement and the stage of life that you are at is Retirement: Secure Your Dreams, PM 1821. The investor saw him in the transition years. This is where more is in stocks and bonds. As you approach retirement years then the shift should be toward bonds. This is a good pictorial resource for your families as well. Another good general retirement booklet is PM1822.

What happens in a recession when we all spend less? A recession is defined as two quarters where we are in the negative numbers. They tried to jump start the economy with the tax stimulus. Then the government was concerned about the impact of the housing recession and thus the “bail out”. Now it is the car industry. What industry is next?

Newsletter contact information:

Brenda Schmitt, ISU Extension
 2023 S. Federal Ave
 Mason City, IA 50401
 641-423-0844
 schmitt@iastate.edu

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 University Extension

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