MONEY

A self-made millionaire shares her top 18 'recession money rules': 'Don't panic' and 'prepare to borrow'

Published Wed, Jul 6 2022•10:43 AM EDT • Updated Thu, Jul 7 2022•11:22 AM EDT

Ann Kaplan, Contributor
@ANNKAPLAN_OWNIT

SHARE

Grace Cary | Moment | Getty Images

Worried about what your financial situation will look like in a year — or even in a few months — from now? With all the concerns about economic growth, it's reasonable to be worried about a potential recession.

position with your money, in the event that a recession does hit in the next six to 12 months.

As a business Ph.D. and fintech entrepreneur who runs a multimillion-dollar company, I urge everyone I meet to

remember that a recession can provide opportunities to get your finances in order.

To boost your chances of surviving an economic downturn, here are my top 18 recession money rules:

1. Build a 12- to 24-month emergency fund. In a stable economy, experts recommend saving for three to six months' worth of living expenses.

But Catherine Valega, a CFP and wealth consultant, suggests that workers aim for 12 to 24 months in case they get laid off.

"I do tend to be more conservative than many because I have seen three to six months in emergency expenses, and I don't think that's enough," she told CNBC in May.

2. Minimize high-interest debt. See if you can negotiate your credit card interest rates by calling your card issuer. Think about how you can make a strong case — maybe you've been with them for a long time or have a good history of on-time payments.

If a rate reduction isn't an option, consider transferring your debt to a lower interest rate card. Or you can consolidate your debts to lower your monthly payments and help free up capital that may be needed in the event of an emergency.

3. Prepare to borrow money. During a recession, many people need to borrow money to get through difficult times — and that's okay. But when interest rates are high, lenders will take a hard look at your credit score, making it more difficult, if not costlier, to get approved for loans.

So create a plan to boost your credit score. Making payments on time and keeping balances low are the most important factors when it comes to building credit.

4. Keep your credit accounts active. Now is not the time to panic and cancel your credit cards. The age of your accounts is a factor in your credit score. Even if you transfer balances, keep your credit cards open.

According to Equifax, credit scores from 580 to 669 are considered fair; 670 to 739 are considered good; 740 to 799 are considered very good; and 800 and up are considered excellent.

5. If your mortgage is close to term, renegotiate now. The average 30-year fixed mortgage has nearly doubled since last year. No one knows for sure if this is the highest that rates will rise, but locking in a lower rate now can protect you if they do.

6. If you have low-interest mortgage debt, stay put. Many people believe that paying off debt during a recession is a smart idea. But I don't advise that. It may be better to make minimum payments and keep the cash accessible.

Why? Because if the worst does happen and you end up losing a source of income, the money you've saved can help recover expenses until you regain financial stability.

7. Buy in bulk if you can afford to. Anything that is a cost savings today that you'll need and use in the future will save you even more money later on, if inflation continues.

Non-perishable staples like toilet paper, toothpaste, shampoos and soaps, or even canned foods make great bulk purchases.

8. Opt for frozen produce. If you always buy fresh fruits and vegetables, consider buying frozen. Often the products found in the freezer section are just as healthy, will keep longer, and cost significantly less.

9. Buy from generic brands. Items such as garbage bags, lightbulbs, paper, makeup, shampoos, pet food, canned goods and other groceries can often be purchased at a lower cost and generally offer virtually the same product.

10. Consider the cost of gas. If you are shopping or running errands, calculate how you can take on multiple tasks in one outing instead of multiple trips. If there is no-cost delivery on a product you're buying, opt to order it instead of driving to pick it up.

11. Build your emergency fund before you invest in the dip. Don't start investing for the long-term until your emergency fund is set. A loss of income can plunge you into debt, and high-interest debt can counteract investment returns.

12. Invest in recession-proof industries. Fear of buying the wrong stock can be mitigated by investing in established, well-known businesses. Investors may want to consider sectors that generally do well in an economic slowdown, such as consumer staples, utilities and healthcare.

In June, CNBC's Jim Cramer told "Mad Money" viewers that during a recession, his advice is to buy "tangible" stocks: "You want to own companies that make real things and do real stuff and turn a profit in the process."

In another segment, he said "food stocks can become recession-proof safe-havens." Some of his favorites, he added, are General Mills, Kellogg and Campbell Soup.

13. Look for negative correlations. Diversify your portfolio by buying asset classes that have low or negative correlations in pairs. This can help minimize the amount of money you lose in the short term if stocks continue to dip because one asset class

will tend to go up in value while the other goes down.

14. If you are considering a career change, look for recession-proof positions. Although no job is completely safe during a recession, certain jobs like those in essential services offer more security.

Think: medicine, teaching, law, accounting, public safety, utilities, waste management and other jobs that keep society running.

15. Create additional sources of income. One of the biggest risks consumers face during a recession is loss of income. Pad that risk by taking on an additional job. You can find a second, hourly job with flexible hours (e.g., bartending or waiting tables, two occupations with a lot of job openings right now).

Or you can start a side hustle through gig apps like Uber, TaskRabbit, Instacart or Rover. Renting out your property (or even a vacant room in your home), either to a tenant or through a vacation agency, is another way to make a predictable stream of income.

16. Resell your stuff. Second-hand sellers thrived during The Great Recession. Sell items you no longer use to second-hand stores. To cut out the middleman, you can post items online on commerce marketplace like Poshmark, eBay or Kijiji.

17. Enhance your market value. Improving your skills or enhancing your education will make you more marketable during a tight job market. Sign up for classes, take workshops, volunteer — the soft and hard skills you pick up will add plenty of shine to your resume.

18. Don't panic — recessions don't last forever. If you lose your job or your income changes, you may have to cut back significantly or spend your emergency fund, but you can always recover that later. Since 1900, the average recession has lasted about 15 months.

__Ann Kaplan__ is the founder of iFinance, the parent company of Medicard, Petcard, Dentalcard, iFinance Tech, and iFinance Home Improvement. She has a PhD in finance and an MBA from the University of Toronto's Rotman School of Management.

Don't miss:

- ***This 29-year-old makes $400,000 per year and owns 3 properties: '5 things I refuse to spend money on'***

- *Americans are 'wasting too much money on housing,' says top economist—here are 4 ways to get 'house rich'*
- *'I work just 2 hours a day': A 24-year-old who makes $8,000 a month in passive income shares her best business advice*
- *A Harvard-trained economist shares his top 21 money rules: 'Own your home' and 'try to buy in cash'*

▶ 8:05

I quit my $35K job to grow my side hustle — now it brings in $141 million a year

Sign up now: ***Get smarter about your money and career with our weekly newsletter***