EXPERT CONTRIBUTOR

IS RETIREMENT *Recession-Proof?*

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It's understandable to be concerned about the state of things given the high inflation levels, the Russian invasion, rising interest rates and the volatility in the stock market. But fear about current financials conditions shouldn't necessarily trigger the same level of fear or panic as in the past. To a wealthy family with multiple streams of income, a retiree or someone on a fixed income who won't lose their job, I believe inflation is a bigger risk than a recession.

I understand why many fear a looming recession. Our last three on record carried a lot of uncertainty. In all of them, we didn't know how many businesses and people would go bankrupt, how many mortgages would be defaulted on, or how many people would lose their jobs. All three could be described by a spike in unemployment, a deep economic contraction where businesses went under and spending was reduced, resulting in disinflation. Interest rates were falling fast to help stimulate the economy, and the government was taking action to support the economy. We have almost the opposite economic conditions right now, with the best unemployment rate we've had since the 1960s, interest rates rising, and consumer savings and spending still solid. It won't last forever, but nothing indicates that a typical recession and economic contraction is happening this year.

While retirees may not have to worry about job loss, they should ensure they are set up to financially weather the storm and properly plan for expenses. The worst scenario is a retiree is forced to sell an asset at a discount because they need the money to pay for something. Those withdrawing from their investments should keep at least six months' worth of expenses in cash on the sidelines, perhaps more depending on the dividends and interest their portfolio generates for them. This is because bear markets typically last about a year, and they don't want to be forced to sell good stocks when the market is falling unless there's no other option. The values of well-managed portfolios have historically come back within 9-12 months. If a portfolio holds a variety of quality, profitable businesses that are being monitored closely in case any of those investments need to be sold for better ones, and has enough cash and cash flow to cover any expenses for the next two years, then there shouldn't be a need to sell at bad prices and the manager can focus on actively trading at more opportune times. Defensive stocks, alternatives and bonds often keep the income and growth on track and typically generate better returns during a recession.

If you're not worried about your business or your job, a recession might actually be a benefit to you personally. The wealthy and retirees, the two categories that typically don't change their spending in a recession, may even secretly hope for an economic downturn. That renovation on the house you have put off will become less expensive, or that trip may become more affordable as others will be tightening their belts on discretionary spending. Things go on sale. Inventories start to build. If your cash flow won't change in a recession and expenses are dropping, you're likely to make it through the rough patch and benefit on the way back out. A more severe problem for retirees is inflation. Someone living on a stable but fixed income has seen their monthly expenses rise substantially and coming up with extra cash each month might seem like an impossible task for some.

It is critical to remember that some recessions are relatively short-lived, and if you have a good team in place and make the right proactive planning strategies today, you'll be better prepared to likely land in a position where retirement is, or will be, still comfortable and you'll be able to enjoy life the way you want, even when economic conditions go sour.

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