

# Investment Opportunities During A Recession?



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Even in the most uncertain economic climate, there are investors who thrive. What's the key? Don't panic, always take the long view, and keep your eyes open for unexpected opportunities.

## Stay calm

The first thing to remember when the markets go south is that, by definition, market cycles have ups and downs. The best bet for riding out market uncertainty is to do just that: ride it out. If you are an investor, not a trader, you need to give your investment time to grow.

Historically, stock values have risen over the long term. If you've balanced your portfolio properly, you should come out ahead over the long haul, even after a prolonged down period.

The second benefit to staying in the market is that you are poised for gains when it rebounds. It's impossible to know that the market has hit bottom until well after the fact. By then – especially if the recovery is V-shaped (that is, a quick, steep decline followed by a sharp, strong recovery from the bottom) stocks may have made significant gains, and if you're not already in the market, you could miss out on those initial gains. Additionally, if you've sold when the market is down, you've solidified your losses, with no opportunity to make that money back. However, you may want to sell even in a decline if you need to realign your portfolio or to realize losses for income tax purposes.

## Shore up your fundamentals

A period of market uncertainty is the perfect opportunity to revisit some of your most basic financial foundations. Taking a realistic look at your current financial picture and making appropriate adjustments can help insure your financial picture in these challenging times. You can't control the market, but there are elements of your financial situation that you do have control over. Read Your Financial Health Checklist for more information.

**1. Review your budget.** Look for non-essentials you can eliminate or cut back on, especially if your income has dropped. See What to Do When Your Paycheck Stops.

**2. Look at your cash balances.** Do you have enough cash set aside for your short-term (1-5 years out) and mid-term needs (5-10 years)? A common guideline is to set aside six months of living expenses for short-term needs in an emergency. If your job is in jeopardy, though, consider setting aside a full year of living expenses or more. You may want to build up

your short-term/emergency cash fund before making midterm or longterm investments. Cash for midterm needs may include a replacement car. It is seldom a good idea to make major investments until after you have set aside enough money for your short-term and mid-term needs.

**3. Check your portfolio allocation.** Make sure your investments are diversified in a way that meets your, growth and income goals for the short, mid and long-term. You may want to consider investing in vehicles that can provide you with a guaranteed income for part of your retirement income.

**4. Check in on your risk tolerance.** You probably haven't changed, but your circumstances might have. Look deeper and beyond the rating services. Review your investments to see if the risk level of any of them makes you uncomfortable; this will also give you a handle on how ready you feel to redirect money into any new investments now.

**5. Look for opportunities for tax benefits.** One possibility is to convert traditional IRAs, which are taxed when you take funds out, to Roth IRA's, which can be tax free if you follow the withdrawal rules. Converting when an IRA has lost significant value will require you pay taxes on it now, but you'll likely pay less than if you wait until it has regained its full value or greater. This may be an opportunity to bargain hunt and reposition your money by buying something on your list and allow your portfolio to grow tax free in a Roth IRA.

**6. Make sure you are protected against identity theft.** While you're waiting for the economic recovery, identity theft will likely be on the rise. Make sure you've taken whatever steps you can to protect what you've worked so hard to accumulate.

- Under federal law you are entitled to check your credit reports free at least once a year ([www.annualcreditreport.com](http://www.annualcreditreport.com)).
- Shred or burn papers with financial information, including mailed credit card offers.
- Don't give out your Social Security number unless absolutely necessary.
- Deposit your mail at the post office or directly into a postal box, and have your mail held for later delivery while you are away.
- Be sure you are receiving monthly or quarterly statements, and review them carefully to make sure there are no unauthorized charges. Visit

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[www.usdoj.gov/criminal/fraud/websites/idtheft.html](http://www.usdoj.gov/criminal/fraud/websites/idtheft.html) for more information on protecting your identity.

**7. Don't despair.** You are not helpless. There are many things beyond your control, so focus on what you can control.

- Has your financial advisor been in contact with you? Is s/he doing everything possible to retool your portfolio for volatile times? Hearing 'Stay the course' is no longer good enough, so it may be time for a second opinion. See the Paladin Registry, a free independent public service that helps consumers find high quality professionals who have the documented competence and integrity to help them pursue their goals and to avoid the risks and consequences of bad advice. You can search for advisors by geographic region, number of years in business, credentials, business practices, services and fees and then receive a complete profile and credentials for the advisors that interest you. The site has four-star rating from Kiplinger.com for its wealth of free articles and resources for consumers.
- Develop a market re-entry strategy and decide when you are ready.

#### **Opportunity may not knock, but it's out there**

For those who have cash available and can afford some risk, there are opportunities in an uncertain economic climate. What products or services will people still need? What products are you using? What are your friends and family doing? Be aware when your investing instincts are coming from an emotional,

not a rational, place. Do your homework, and invest in areas you understand and are comfortable with.

There may be segments of the economy that are rebounding after a decline early in the down cycle. Is there a particular sector that is seeing a surge of interest, either locally, regionally, nationally or internationally?

Once you've identified investing opportunities, start with a small investment and continue adding regularly over time – there are opportunities now in fixed-income investments we haven't seen in years. In a volatile environment, dollar cost averaging\* – investing a fixed amount at regular intervals – helps you benefit from price swings and uses volatility to your advantage. With your fundamentals in place and a market re-entry strategy and 'buy' list in hand, you will feel powerfully in control and ready for a market recovery – whenever it arrives.

\*Such a plan involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through periods of low price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.

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