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Financial Planning Ideas During an Economic Downturn

Friends,

We understand the potential stress and anxiety that you may be feeling as a result of the Coronavirus and its impact on the economy and financial markets. We have highlighted below a number of financial planning action items to consider during this difficult period. Taking action on any of these items might not only save you money but also may provide some peace of mind.

Revisit Your Financial Plan

At a minimum, we strongly recommend that you update your personal financial plan for at least the next twelve months. Develop a realistic estimate of your income, your spending and your savings, if any. For example: Can you continue to contribute to a 401k plan… Are there projects or plans that you can defer, etc.? If you've put off developing a family budget, now is the time to act. We would be happy to facilitate these conversations with you.

Assess Cash Reserve

Planning for all scenarios should include some level of cash reserve to cover operating costs and carry certain debt payments should cash flow prove to be a challenge. Attempt to maintain current liquid cash levels if your cash reserve has the ability to cover 3-6 months of expenses. If not, periodically build this reserve amount, if possible, through current cash inflows. Both can be accomplished through assessing current budget items where flexibility exists.

Consider Refinancing

Interest rates have dropped during the last month, and now is a good time to consider if any debt with higher fixed rates can be refinanced. Have your banking expert provide quotes, and be sure to understand the costs associated with refinancing to determine viability and breakeven.

Utilize Tax-Loss Harvesting

In some cases, it may be appropriate to take advantage of positions in taxable brokerage accounts containing losses. Realizing certain losses can offset current or future gains, while it doesn't necessarily entail reducing the allocation to equities. We have been evaluating this strategy for our clients where appropriate.

Analyze Conversion to Roth IRA

If appropriate, converting retirement accounts to a Roth IRA should be analyzed during periods of market decline. It may be more practical now to convert to a Roth as the amount of tax owed on the conversion will be impacted by the reduced account values. A drop in personal income can also influence the tax linked to this conversion. A tax expert should be brought into this process.

Stay the Course

We feel it is important to reiterate this important phrase as our job is to remain steadfast in having a plan and executing on that plan, especially during times of market instability. While it is important to recognize that some actions may be required in the short term, we must understand and focus on our long-term goals and resist the impulse to make emotional decisions which could undermine our ability to achieve those goals. Having a plan to rebalance to a predetermined asset allocation is one way to remain focused on a strategy built to last for a longer time period.