Is The Next Recession Close?

People are probably throwing around the "R" word, recession. They might be doing this because we had a negative quarter of GDP to start the year. We technically enter into a recession when there are two consecutive quarters that GDP has declined. So time will tell if we are in a recession currently or not.

Things might be starting to get a little uncomfortable for you financially with inflation and volatility in the market. I will discuss in this newsletter some data to put things in perspective and how you can prepare.

<u>History of Market Fluctuation</u>

It is important to look at the history of market expansions and recessions. This can help give us a fresh perspective to focus on the long-term. Recessions tend to go hand in hand with bear markets. A bear market is when the market has fallen 20% or more from its previous high. The average bear market period lasted 11.3 months, with an average cumulative loss of -32.1%. You don't want to try and time the market because there have been recessions that never saw a bear market. You want to stay focused on the long-term because the market tends to be in a bull market. A bull market is considered from the lowest close after the market has fallen 20% or more to the next market high. The average bull market period lasted 4.4 years, with an average cumulative return of 154.9%.

It is crucial to control your asset allocation within your portfolio and take the right amount of risk. You do not want to be greedy and take on more risk than you can bear when the market pulls back because it will take more returns to get back to where you were. It is important to stay diversified and know your risk tolerance and risk capacity.

Decline	Return Needed to Fully Recover
-5%	5.26%
-10%	11.11%
-25%	33.33%
-50%	100%

What Planning Points You Should Consider

Do A Plan Assessment: Take some time to sit down and see how your long-term plan looks. Your plan should be good before a recession, during a recession, and after a recession. If you do not have a plan, then it is a good time to create one.





Reevaluate Risk: How have you positioned yourself? Are you taking on too much risk with your money or not enough? Is your foundation strong with an emergency fund? Do you have a margin on your cash flow? It is important to know your risk capacity with your money.

Ignore the Noise: Focus on your plan. With technology at our fingertips, we are always getting the most up-to-date news. This could make us more emotional, less rational and distract us from what really matters with our finances. Constant noise can distract you from your longterm financial plan.



Notice the Opportunity: Sometimes the market becomes "on-sale" during a recession. This can be a good time to put money to work on top of your regular dollar-cost averaging if you do that. Just like any other asset that you own, you want to try to buy low and sell high.

The pullbacks that can happen during a recession need to be taken into consideration with your overall situation. Under certain circumstances, it may be an attractive opportunity. And other circumstances, it may be a time to re-analyze your financial plan.

If you already have a plan or advisor, I would be happy to reevaluate your financial plan. If you do not currently work with anyone, I would be glad to sit down with you and create a proper course of action for your financial plan.

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Sources:

1. <u>History of U.S. Bear & Bull Markets</u>, First Trust Advisors L.P.

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