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Covid-19: What Can I Do Now?

The Covid-19 pandemic that we are experiencing is a terrifying time. The medical uncertainty and the loss of life have disrupted all of us and quickly spread into the economy. While a recession has not officially been declared, we can probably all agree that one is happening.

The Covid-19 pandemic is agonizingly unique. Few, if any, saw it coming, and the pandemic has become a financial and medical crisis almost overnight. This article focuses on the pandemic's financial ramifications.

Advising our wealth management clients has many parallels to what each of you do every day. As I look back on my brief (but valuable) legal career, it seems that 90% of my time was spent solving people's problems, while the remaining 10% was spent trying to avoid such problems from occurring in the first place. Proper planning may have been prevented many of them. Managing wealth is much the same, whether you have $10,000 or $10 million.

While recessions have different causes, they are a natural part of our economic system. They occur periodically but without warning. Hence, trying to prepare now would be too late. Proper planning begins at the end of the prior recession and in preparation for the next one. You need to have the proper mindset.

The first course of action is to get yourself through this recession, learn from it and figure out how you can approach the next one differently.

Let's think about what you can do during this fiscal fallout. We will then discuss some basic planning concepts on how to get your financial house in order.

What Can You Do Today?

One of the first things you may consider is to tighten the purse strings, which means limiting spending to necessities. One problem with recessions people reduce consumption and stop spending. The results in businesses making less money, which forces them to furlough or lay off employees; a vicious cycle ensues.

Next, you need to evaluate your "fixed expenses" and determine a budget. None of my clients (myself included) like to budget, but this is a time when doing so is important. Your budget should include debt payments (auto, mortgage, and credit cards), taxes, utilities, and food. Today, there are currently not many places to spend money because many stores, restaurants, and entertainment venues are closed.

Hopefully, you have some "rainy day money" stashed away to address your recurring expenses. In recessionary times, debt is one of your greatest enemies. Debt payments do not stop when your income declines or vanishes. You should plan for these upcoming expenses by determining how much available money you have and what you may need for the next few months.

You may also have access to government benefits such as the Coronavirus Aid, Relief, and Economic Security ("CARES") Act's Paycheck Protection Program or other stimulus checks that may help.

The recently passed CARES Act provides ways for employees to withdraw money from their retirement plans and waives certain IRS-imposed penalties. My recommendation is simple; these should only be accessed as a last resort, which is easier said than done. If you must access these funds, withdraw only the absolute minimum required to sustain yourself.

Temporarily discontinuing retirement plan contributions is another option, but if you do so, make sure you have a strategy to restart them once your salary returns to normal.

While this advice might sound militant, you need to be both diligent and relentless in managing your financial affairs during these times.

How Do You Plan for the Future?

Preparing for the next recession is similar to surviving this one. If you have not done so already, try to save a minimum of three months' expenditures. That amount would allow you to fund unexpected expenses without having to take on additional debt such as those from credit cards.

Next, reduce debt! Credit cards are one of the worst forms of debt, so get them paid off as quickly as possible. If you think about it, credit cards simply allow you to spend more than you earn. That is never a good thing.

In times like this, many people say, “I really wish I didn’t have a mortgage.” If that is you, start paying down your mortgage. Refinancing your mortgage may also be an option. In addition, make sure you live in a house that is affordable. Times like this exacerbate the problem of having “too much house.”

Build “financial momentum,” which means spending less than you earn over a period of time, having savings, making investments, and contributing substantially to your retirement plans. When the refrigerator breaks, you simply go to the store and buy a new one. You are not worried about paying off your credit card.

Financial momentum sounds easy, but far too many Americans have trouble with it. At times, especially when you are starting out, you need to say “no” to things you really want to do. I would imagine that everyone reading this article has spent money on something during the past 12 months that they wish they had said no to.

Start thinking today about what you can do for yourself and your family. During times like this, one quote always pops into my head:

“Only when the tide goes out do you discover who’s been swimming naked.”

– Warren Buffett

Don’t let that be you.

All the best!

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