Diversifying

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How to Recession Proof Your Life

Speakers: Delyanne Barros, Christine Romans, John Berman, Don Lemon, Julien Saunders, Kiersten Saunders, Julien and Kiersten Saunders, Sara Rathner

00:00:02
Delyanne Barros Turn on the news, and you might feel your heart racing, and your hands start to sweat...

00:00:08
Christine Romans Growing anxiety as Americans see gas and grocery bills rising, the stock market falling, and the "R-word" now growing concern about the possibility of a recession.

00:00:19
John Berman So much is out of your control. How can you bear proof your money?

00:00:23
Don Lemon But with growing fears of a looming recession, Americans are looking for relief as they stare down a summer of tough choices.

00:00:34
Delyanne Barros Now I want you to close your eyes for a second and take a deep breath. [Breathes in, breathes out.] Are we headed towards a recession? Are we already in one? These are scary questions, especially if you're still triggered when you think about the Great Recession of 2008. But recessions are an unavoidable part of the economy and they don't have to be the end of the world, especially if you're prepared, which is why we're here. I don't want to add to your recession anxiety. Instead, I want to show you that you can still be in control. So today, I brought back some friends of the show to talk through the best ways to think about things like your job, your savings, and the dread you might be feeling when you check on your 401k. We are going to walk through the steps you can take to recession proof your life now. I'm Delyanne Barros, this is Diversifying.

00:01:40
Delyanne Barros Welcome back Kiersten and Julien.

00:01:40
Julien Saunders Hey hey!

00:01:42
Kiersten Saunders Thank you. Thank you. We're excited to be back and talking about this fun topic.

00:01:48

Delyanne Barros

I know they're like, this is what you invite me back for? Our guests today are Kiersten and Julien Saunders. You might recognize their voices from our episode on money and relationships. They're authors, podcasters, and they're the married couple behind Rich and Regular. Honestly like I love talking to you guys about all things money and I know, you know, you've been through a recession or two like I have. And so we have the experience that we can share with our younger listeners about what it is that they should be expecting if we do go into a recession. So the first thing I want to do is let's define this word recession, right? Because it has many, many connotations, but it also has a really formal definition which I'll quickly share, which is a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters. What? What does all that mean? But basically, it just means, you guys, that our economy is, you know, structured in four different quarters, Q1, Q2, Q3, Q4, and as long as two quarters of, you know, the production of the American economy, like what we produce and goods and services, as long as that has fallen two quarters in a row, boom, we're officially in a recession. Right. So, you two, it sounds that based on this definition that we're only going to know we're in a recession after we're already in it. So what are some factors that we can look to to determine, hey, I think we're heading into a recession?

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Kiersten Saunders

So to your point, recessions are a little odd in that you don't know that they're there until after six months. And so as we've gone through multiple rounds of this, I think we've gotten better noticing some of the leading indicators, things like layoffs, which we've seen big tech companies do. And whenever big tech companies get a cold, the rest of America gets the flu. And so they view that as a leading indicator. When a healthy, growth-oriented company is slowing down and laying off workers, that there's something bigger there. We're also seeing slower retail reports. Big companies like Target are experiencing less profits because people's pandemic behaviors have changed. And we're going back to buying the basics. And because of all the supply chain delays, stores are having a hard time keeping up with what demand actually is. So there's a lot of leading indicators, primarily changes in consumer behavior, that help economists kind of put the declines in perspective and know whether this is just a blip and people are pulling back a little bit or if this is part of this recession that we're expecting.

00:04:33

Julien Saunders

Yeah, I like to think of it as like driving a car. Right. And so if you're driving a car, especially like my older cars, where I used to have the actual gear shift and every now and then my hand would slip and out of drive and it would go into neutral. If the car was still going like 45 miles per hour, it'll still go, but it'll slow down, right? So it's not like the car comes to the sudden halt. You're just kind of cruising, you know, unintentionally. But hopefully after tweaking a couple of things, you can move that thing back into drive and then you can start accelerating again. It's really just a bit of a slow down that's not like this big, scary screeching halt that sometimes the news can make it feel like.

00:05:10

Delyanne Barros

Yeah, I think that's a good way to put it because, you know, this may be someone's first recession, but this is not the first recession, nor will it be the last recession that you experience, so if you haven't experienced a recession before, welcome. This is what it feels like. And feeling uncertain and anxious and overwhelmed is a completely normal reaction. So, you know, that's okay. But today we're going to talk about what is it that you can be doing to deal with a recession. First thing I want to talk about is the emergency fund. I've usually told people to save anywhere from 2 to 3 months of expenses. But in light of like a riskier climate, like what we might be heading into, I suggest increasing that to about six or nine months of expenses. What do you guys think about that?

00:05:58

Kiersten Saunders

Yeah, I think that's a great point because I think so often we treat emergency funds like they're fine China. We just kind of build them and put them aside and never actually think through the practical use of what an emergency requires of you. And so bulking that up is huge, right? Even if you have an emergency fund of six months of expenses, if you set that goal back when gas and bacon were reasonably priced, you need to revisit it anyway with everything. Everything is more expensive, right? So just go back through your emergency fund if you have one now and actually run through whether that 3 to 6 months that you established two years ago can still cover your rent today. Can still cover your grocery bill, your gas bill and the essentials. And then start running the play on what it looks like to reduce in certain areas. So you can start figuring out like, okay, well, what does that do if I'm plant based three times a week? How can I carpool to longer destinations? Is there anything I can do in terms of sharing a bulk order of grains with neighbors or family members? You can start kind of running the play on how you actually want to make your emergency fund stretch.

00:07:06

Delyanne Barros

And then I would add to that the next level would be adding costs to your emergency fund that you don't have to cover now because of your job, like health insurance. If you did all of a sudden have to pay for COBRA or go out and get an individual policy, how much would that cost, and start baking that in as well.

00:07:25

Kiersten Saunders

And then the other side of the emergency fund equation is seeing if you qualify for any government program. So assuming you're laid off, will your company offer a severance or are you eligible for unemployment? Is there a state law or relief program that you might be eligible for? Like, what's going to be available to you should you encounter a sudden loss of income? It's helpful to have a game plan before it actually happens.

00:07:49

Delyanne Barros

Absolutely. All right. So let's talk about jobs. What is the best move right now? Because we're literally, I feel like I'm getting whiplash. We have gone now from the great resignation to now potentially a recession. I'm like, how did this happen so quickly? So people are confused. Do I stay or do I go? Do I start talking to the recruiters? Do I make the leap or do I stay where I am? What are your thoughts on that?

00:08:15

Julien Saunders

I think any time is actually a good time to test the marketability of the skills that you've learned. And if there's one thing that our generation and by that I mean us older millennials did not get quite right, I think we were still holding on to this sense of loyalty that our parents generation have, you know, who were raised with pensions and all of these other foundational elements that just don't exist anymore. And I think more and more what we're learning is that there is a lot to gain in keeping the light on. Right. It doesn't change the way that you approach your work. It doesn't mean that you are a bad person, but by keeping the light on you at least give yourself an opportunity to just see what else may be out there. And there have been literal studies that have shown that people who stay at their jobs for longer than I believe it was two years or so, that those people tend to earn less than people who are hopping around. You know, I think a recession is no different than any other period of boom period, if you will. I think any time you have the skill set and there's a great value, so what you bring to the table, you owe it to yourself to extract as much value from that skillset as possible. And I know that can make some people uncomfortable, but I think that is the situation in the environment that we're in.

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Delyanne Barros

Yeah, I agree. I think that this fear of, oh, I've put in, you know, ten or 15 years here and I'm going to sacrifice all of these years of loyalty if I jump to another company and if there's a layoff, I'll be the first one on the chopping block. That could be true, but that could also happen at your old company. You know, I'm an employment attorney. I worked as an employment attorney for 14 years, and I constantly had clients who came in with 20, 30, 40 years of loyal dedication to a company who were simply laid off. And, you know, who knows what the reason was? But I'm saying putting in all those years are not going to guarantee that you're going to be spared during the layoff.

00:10:04

Kiersten Saunders

Absolutely. And if those years are as valuable to the employer as you think they are, if you need to come back, they'll bring you back. You will be more valued than any external candidate that doesn't have 20 or 30 years on the job or 11 years at the employer. So it's a great way to test your assumptions to see like, is this just a story that I'm holding on in my head or is this actually how recruiting works today?

00:10:31

Delyanne Barros

So let's talk about something related but different. Creating a second income stream. I can speak only for myself and say that I didn't really feel financially secure until I started my business alongside my full time job because that paycheck always felt like it could be yanked away from me. So should people be pursuing other streams of income in the way of side hustles or businesses right now?

00:10:59

Julien Saunders

I think it's absolutely imperative that people, especially those who have high ambitions to build wealth or aggressive plans to pay down debt or accomplish any major financial feat, I think you owe it to yourself to do whatever it takes. That's legal, of course, to grow your income or to maximize your income. I think part of the challenge is we live in such a binary world where there are people who are just either or. You're either all about being an entrepreneur or you're all about being great on the job. And today I think there's a lot of room in between. There's the term Dual Preneur or Dual-preneurship. This idea of doing a little bit of both or having a 9 to 5, but also having a 6 to 9. Even if you do that, there's also then the balance between doing that, but also trying to maintain some sense of wellness. But I think we have to kind of break the mold and break out of this either or mentality and start looking at the much wider set of options to people.

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Kiersten Saunders

Yeah, it reminds me of, you know, how they say that all villains have an origin story, like, there's that moment where they decide, like, I'm going to be evil for the rest of my life. I feel like recessions are good financial independence, FI, origin stories because when you can wrap your head around what it feels like to suddenly lose your income or to feel like what you thought was secure may not be so secure, you can start to understand the benefits of learning how to build income streams outside of your 9 to 5 employer. Like sometimes you need that fire lit up under you to realize that like you should always be looking for other income sources that you can lean on when your income dries up.

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Delyanne Barros

That's exactly the next point I was going to make, which is everything we're going to talk about today in this episode of suggestions and ideas are things that you should be doing regardless. Whether there's a recession or not, you should always be working to recession proof your life because you may experience a personal recession at any time, right? The rest of us could be doing well and you could be going through a recession and then vice versa. So there is no perfect time to start this. But I think a recession is kind of a wake up call for a lot of people. So if this is your wakeup call, then take advantage of it. Better to deal with it now and get your plan in place than to wait until it's too late. When we come back...how to see this recession as an opportunity instead of the apocalypse. Welcome back to Diversifying. I'm here with Julien and Kiersten Saunders of Rich and Regular. All right, let's talk about my favorite subject investments, because the question that I'm getting right now from everyone is what am I doing wrong with my portfolio? It's down. Is there something else I should be buying? Is there another account that I should be using? And I'm like, No, we're all in the same boat, okay? We're all down together. This is all happening to everyone. What should you be doing with your money right now? Should you be leaving it in the stock market?

00:14:07

Kiersten Saunders

Yeah. I mean, I have a lot of empathy for people who are freaking out because I know how many new investors the pandemic brought online in 2020. We saw record of people making their first investment in the stock market and they've enjoyed, you know, two years of lots of gains. So I understand how scary it can be to see that come to a halt. Just know that the stock market continues to ebb and flow as a net. It's a living, breathing thing. It's very natural. So if you can leave your money in there, especially if it's for something like retirement. Now, what you can do that's helpful is to actually zoom out and look at a different time horizon. So think back to those times in 2020 where your accounts were growing 20 and 30%, instead of just focusing on the last six months where it might be down 10%.

Julien Saunders 00:14:56

Yeah, I can't help but to think about this the way I would if you were making chili in a crock pot. So when you're making chili, right, you start your day off and you're doing it in the morning. And a lot of people do this because they want it to be done by the time they get home from work. But if you taste it right then before you leave for work, it's going to taste pretty bad, right? It's not done cooking yet. You've got to let that thing roll. You got to let it simmer for about six, 7 hours. And then by the end of the day, that's when you can actually enjoy, like, the fruits of your labor. And I think it's the same thing if you freak out and you taste something in the beginning of the day or you peek at your 401k and you see that it's completely declining and you get afraid and you just sell everything, you're kind of missing out on the feast that you could be enjoying later.

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Delyanne Barros And the analogy that I use is that people are trying to microwave their way to wealth.

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Julien and Kiersten Saunders Yeah!

00:15:45

Delyanne Barros And microwave never compares to the oven or the crock pot. So this is about slow cooking investment. You know, you wanna slow cook it, you want to get that nice roast feeling in it. You want the meat like falling off the bone. Okay, now I'm getting hungry.

00:16:00

Kiersten Saunders I know! [Laughing]

00:16:04

Delyanne Barros [Laughing] No, but I couldn't agree more. I think that this is a valuable lesson. If you haven't experienced a dip in the market before, this is your first one. Again, welcome. This won't be the last one. You will experience it many, many times over. What I tell people is that this is a great buying opportunity if you are in the position to buy and continue investing. So don't reduce those 401k contributions. Obviously I'm a huge fan of continuing to pay off debt while investing. But if things really get shook up in a recession and you think there's a possibility that you might get laid off, you might want to curb a little bit on that and think about your debt strategy. What should you be doing in order to deal with it during a recession?

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Kiersten Saunders Yeah, I mean, I think with the announcement of the Federal Reserve raising interest rates, everybody that has debt should know that their debt is about to get more expensive. And so if you're also worried about cash flow income in general stability, then you should definitely make paying down your debt a priority. And you certainly should start focusing on the indicators that credit card companies or credit bureaus, agencies use to determine your credit worthiness. You want to make sure that those look as favorable as possible. If you actually need to take out a loan to keep the lights on while you're out of income or experiencing a job loss. And so there's a number of ways that you can pay down debt. People tend to treat this like a career where they have to like pick one method and stick to it forever. You might need to switch up your methodology. So if you were previously doing the snowball, you might want to switch to the avalanche in order to to pay it down differently. Whatever it is, reevaluate it. But just make sure that your debt is remaining in the forefront of your mind because it's only going to get more expensive the longer you hold onto it.

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Delyanne Barros I know we went through a lot of information here, and I don't want to leave people feeling hopeless and panicked because that is the exact opposite of the purpose of this episode. What I want people to remember is that they shouldn't panic and that this is a temporary setback for our economy, but totally, totally normal. And on your podcast, you had a really nice metaphor about seeing a recession as an afternoon rainstorm. Would you mind laying that out for us so people can get some perspective?

00:18:28

Julien Saunders

Yeah. So when most people think about their vacations, like no one is hoping that is going to rain while they're there. But when it does rain, because that does happen, especially if you're going to like the Caribbean, you know, you just kind of make the most of it, right? It's a little bit of a down time. It's not so hot. You can go inside, take a nap, just kind of relax. And I think that's a bit of the benefit of rain, right? And I think that's how people should think about a recession. It's just like an afternoon shower, right? And the good news is that kind of cools the place off a little bit. So it's not so blazing hot. And after a while, you end up kind of appreciating that it happened. So that's the way that I would ask people to kind of think or feel about it. It's not the end of our vacation. It's just a little bit of an opportunity to take a nap, go inside, maybe close the window a little bit, and then you come back out and things a little bit cooler, lush, and beautiful.

00:19:22

Delyanne Barros

Oh, my God. Now I need to go on vacation. That sounds lovely! Thank you so much to Kirsten and Julian Saunders for coming back on the podcast. You can find them on social media @richandregular and they've got a book that just came out. It's called Cashing Out: Winning the Wealth Game by Walking Away. So many money gems in today's episode. Here's a quick recap so you can take them with you to weather out the upcoming storm. Money gem one: Don't panic. Recessions are a normal part of the economy. Typically, they last about 11 months. Feeling uncertain, anxious, and overwhelmed is a completely normal reaction. But this too shall pass. Money gem two: It's a good time to bulk up your emergency fund. Make sure what you have is enough to cover 6 to 9 months of expenses in case of job loss. This should be in a high yield savings account, not the stock market. Money gem three: Higher interest rates mean your debt is now more expensive than ever. Paying it down faster means less liability and more peace of mind. Money gem four: When you're thinking about your investments, zoom out. Downturns like this are just a normal part of investing in the stock market. In the long run, it will feel like a blip. To really see returns, you have to think in years, not months. Money gem five: When it comes to your work, it never hurts to have multiple streams of income to support you in case you're suddenly laid off. Think about freelancing or starting a business on the side by leveraging the skills you already have. Whether we're in a recession or not, any of the things we discussed today are good practices for your financial health. The best thing you can be doing right now is preparing before the storm hits. Think of each of these steps as a sandbag to prevent your basement from flooding. Once the storm passes and the sun is shining on your finances again, you'll be so glad that you recession proofed your life. We're taking next week off for the 4th of July, but we'll be back the week after with a new episode all about a little piece of plastic that can turn your world upside down if you don't know how to use it right.

00:22:06

Sara Rathner

There's a lot of fear when it comes to using credit cards. I think a lot of people equate credit cards with being in debt. If you have a card, you are in debt, period. And that's actually not true.

00:22:18

Delyanne Barros

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