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How to safeguard your finances in an economic slowdown

- Any form of economic slowdown has a direct and indirect impact on your personal finances too
- You cannot control the economic environment or your income flow, but you can control your expenses to a certain extent

In the past couple of months you must have heard the word slowdown in multiple sectors and through many high-frequency economic indicators. For instance, in the last monetary policy announcement, the governor of the Reserve Bank of India (RBI), Shaktikanta Das, said the economy is in the midst of a cyclical slowdown.

The slowdown in private consumption, investments and government expenditure is evident from the drop in sales of domestic cars, two-wheelers, tractors, real estate, volume growth of fast moving consumer goods (FMCG) companies, bank-lending and investment projects.

Any form of economic slowdown has a direct and indirect impact on your personal finances too.

Here is how you can safeguard your finances during a depressing economic environment:

CURTAIL YOUR EXPENSES

You cannot control the economic environment or your income flow, but you can control your expenses to a certain extent.

“Any kind of economic downturn has a huge impact on job security. We are already reading about auto manufacturing plants shutting down. A lot of the workers in the auto industry have seen job losses. In times like these, it is important for you to take a re-look at your expenses keeping in mind that it could be a prolonged downturn," said Mrin Agarwal, financial educator and founder of Finsafe India.

How do you curtail your expenses? “Look at curtailing your non-essential expenses . For instance, if you are eating out very often, you may want to reduce the frequency," said Agarwal.

DON’T SCALE DOWN YOUR INVESTMENTS

In a falling market environment, you should not stop your investments.
“If the markets are not doing well, that is when you need to venture into it. Don’t get impacted by market movement. You should not change the asset allocation because of market movements. Also, don’t chase investment fads. For instance, a lot of people will be looking at gold considering it is doing well. I am not against

gold. You can invest based on your asset allocation, but not because of the kind of returns it is offering," said Suresh Sadagopan, founder, Ladder7 Financial Advisories.

For instance, if your asset allocation requires you to invest 60% in equity and 40% in debt, don’t change it just because the returns in equity are not meeting your expectations.

STICK TO GOAL-ORIENTED INVESTMENTS

In a falling market, usually, people panic about their investments, which experts say, is not required.

“I am seeing a lot of people talking negatively about their investments. Typical reaction is that if you have lost 30%, exit the investment. If you have done your investment planning as per your financial goals then stick to it. The biggest problem is most people invest in an ad-hoc manner, without a goal in mind. Maybe you need to look at your investment strategies again," said Agarwal. If you have already made provisions for your upcoming goals, you will not have to worry. “If you haven’t done such provisioning, it is time to do it," said Sadagopan.

BE PREPARED FOR AN EMERGENCY

You need to have access to emergency cash in case you witness unforeseen circumstances such as job loss.

“If you feel that you are in an industry that is hit by an economic downturn then you certainly need to look at your portfolio. For instance, in 2001, the telecom industry went through a bad phase and some companies cut salaries by 30%. It is a good time to check if you have emergency cash," said Agarwal.

UPSKILL YOURSELF

It is a good time to consider re-skilling yourself too.

“Upskilling can protect you from a possible job loss and finding that you are not skilled enough to go back to workforce," said Vishal Dhawan, founder, Planahead Wealth Advisors. It is always good to be prepared for any unforeseen events.