U.S.News & WORLD REPORT
usnews.com

Monday, April 6, 2009

How to Handle Your Job and Finances If There's a (Yikes!) Depression
What to do if the worst happens

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Posted March 5, 2009

Brace yourself, America. What if the already terrible economy gets even worse? And not just a little bit worse, but a lot worse? Look at it this way: If you put a group of brainiac economists together in a room and told them to create a computer model of a Great Depression 2.0, the key ingredients would probably be a) plunging stock prices, b) collapsing home values, c) soaring unemployment, and d) a banking system on the verge of complete implosion.

And do we have all those terrible factors in play today? Check, check, check and check. But there are also some big positives to counterbalance those huge negatives, such as a Federal Reserve that is lowering interest rates and printing money, as well as trillion-dollar government plans to stimulate the economy and keep people in their homes.

But things can get a lot nastier without reaching a total Great Depression scenario where the economy shrinks by 25 percent and unemployment soars by 25 percent. So just how bad might the economy get? And if there is a mini-depression, what should you do about it? Your questions, our answers.

Give it to me straight--where's this economy heading?
There are some positive signs out there. Really. A highly respected economic model from the Federal Reserve Bank of New York predicts the recession, already 16 months old, will end this year. And White House economists are predicting a strong rebound over the next three years. But many private forecasters are far gloomier, predicting tepid growth going forward for several years and unemployment rising to at least 10 percent next year and staying elevated. This is the "long recession" scenario, similar to what happened in Japan after its real estate and banking crisis in the 1990s. Certainly, the battered stock market is giving few signs that investors see brighter days ahead. Research by Harvard University economist Robert Barro has found that big market drops raise the probability of an outright depression, defined as a GDP drop of 10 percent or more. As Barro concludes: "The stock-market crashes of 2008-09 in the United States and other countries provide ample reason for concern about

depression."

[See why some investors are growing worried about Obamanomics.]

How can I keep my job?
Workers are spending an average of 2.8 hours each day worrying about job security, according to a recent survey. Here's a tip: worrying about it won't save it. This downturn is your cue is to stick your head out and become a somebody: lead a project, suggest an overhaul, work overtime, and develop relationships at work. If you're stuck in a job with little upward mobility, the best career move may be to head back to school while the opportunity cost is smallest. "It's time to take that hit," says Peter Morici, an economist at the University of Maryland. Just get a degree with obvious payback at a good institution: "Go to a school with brand loyalty among employers in the region where you want to find a job," Morici says. If you're out of work but not interested in going back to school, you may best survive the recession by taking a job at a lower pay grade. While on the hunt, consider offering to work part-time for free in an industry you're hoping to learn, suggests Katy Piotrowski, author of The Career Coward's Guide to Career Advancement. Free work is a boon to a struggling company, and you'll only add to your skills, your resume, and your contacts.

[See 5 Surefire Ways to Mess Up a Job Interview.]

My home has already lost a lot of value. Can it really fall much further?
Home prices at the national level have already plunged nearly 27 percent from their 2006 peaks, and Richard Moody, the chief economist of Mission Residential, expects values to drop another 10 to 15 percent before bottoming out in the middle of 2010. Although he's not predicting it, if the ongoing recession evolves into a full-blown depression, home prices could fall an additional 25 to 30 percent on top of that, Moody says. That's because a sharply higher unemployment rate would pull many would-be buyers out of the market. At the same time, the dysfunctional credit markets associated with a depression scenario could prevent many buyers with sufficient incomes and solid payment histories from obtaining mortgage financing. The result: "more significant drops in sales, prices and construction," Moody says. If so, more folks will be checking out the government's new foreclosure prevention plan, especially if your debt-to-income ratio is above 31 percent, and your mortgage is more than your home is worth.

[See what Warren Buffett is telling homeowners to do next.]

What is someone in their 30s or 40s to do now that their 401(k) is a 201(k)?
The good news is that you still have decades of compounding growth ahead of you. The bad news is that a 20 percent or 30 percent blow to your portfolio means postponing nearer-term financial goals like buying a house or taking that around-the-world trip. Assuming you have a stocked emergency fund, keep funneling money into your 401(k). If you can, kick those contributions up a notch to take

advantage of the market's fire-sale prices, says Russell Fox of Apex Wealth Management Group: "Generally someone who's 40 doesn't have the largest nest egg they'll ever have, so they're not in a situation where preservation is the top priority."

It's also soul-searching time. Find out why you set up your portfolio the way you did, taking into account risk and time horizon. Then, with Terminator-like resolve, stick to your guns (allocations). "Nervous investors should at least continue building the bond portion of their portfolio, then tiptoe back into equities," says Ronald Rogé CEO of advisory firm R. W. Rogé & Co.

[See whether you should swear off stocks.]

And what if you're in the retirement "red zone" and don't have decades to rebuild your portfolio?

The idea of working during the traditional retirement years isn't much fun, but it is practical. One of the best ways to give your retirement accounts a boost is to work another year or two. It will take the typical employee with 20 or more years on the job an extra 1.8 years working to recover recent market losses, according to calculations by Jack VanDerhei, research director of the Employee Benefit Research Institute. Delaying claiming Social Security also produces higher payouts. Benefit checks increase by approximately 7 to 8 percent for each year you delay claiming between age 62 and 70. And because Social Security is calculated based on your 35 highest earning years, each year you work in your 60s (assuming you earn more now than you did in your 20s) will further boost your checks in retirement. If you have already retired, it is more difficult to recoup market losses. But at least seniors over age 70 1/2 will not be required to take distributions from IRAs, 401(k)s, and 403(b)s in 2009, which will allow retirees who don't need to tap their nest eggs an opportunity to avoid selling low.

[See 7 Ways You Can Still Retire During a Recession.]

OK, I'm going to totally hunker down and save like crazy. Any suggestions?

Consider extreme saving. Buying in bulk, making your own coffee, and freezing leftovers are all ways to cut your grocery bill down to under $7 a day. But by taking saving to the next level, only buying sale items, staying away from brand loyalty, and using coupons for most purchases, you can actually save up to $1,500 a month. Ashley Nuzzo, creator of the Frugal Coupon Mom website, uses a three-ring binder to keep track of her coupons, and typically cuts her shopping bill by more than half. In December, for example, she spent $711 and brought home $2,200 worth of food - much of which she ended up donating.

[See how to cut your living costs by 70 percent.]

Reading about a depression is depressing. What can I do about that?

Hey, don't worry. Be happy. It's hard to be grateful for what you have when your 401(k) lost most of its value and you have no savings, but it's probably the best thing you can do for your mental health. Sonja Lyubomirsky, professor of psychology at the University of California-Riverside and author of The How of Happiness: A Scientific Approach to Getting the Life You Want, suggests cultivating a sense of appreciation through something like a gratitude journal, where you write down three to five things for which you are thankful. If you lost your job, think of other dreams that have come true, such as living in the city you want or marrying the right partner. "It's not trivializing what's happening, but trying not to focus on it all the time," says Lyubomirsky.

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