Coronavirus Pandemic - Financial Lessons Learned

ISSUE NO. 5
January-March, 2021

Focus on finance

Coronavirus Pandemic - Financial Lessons Learned

We all know the story of the coronavirus. Emerging from China in late 2019, it swept across the world in the early months of 2020. In the U.S., state governors shut down businesses; employers laid off or fired workers. Cinemas, theaters, restaurants, gyms, sports arenas - and the list goes on - were closed.

When the bottom fell out of the economy, the stock market followed swiftly behind. The Federal Reserve Bank and Congress responded immediately. The Fed shored up stock and bond markets, and Congress sent stimulus checks to individuals to replace lost income.

So one year later, what financial lessons have we learned?

All Recessions Are NOT the Same

We might believe this time everything is different or that it's just like last time, but both are likely wrong. There are too many variables affecting the economy and our financial markets.

In October 1929, an investor who sold stocks succeeded because the market fell further and only recovered fully in the 1950s. An investor who sold stocks in March 2020, when the market dropped 25%, would have missed the recovery beginning in August 2020.

Don't Confuse Fear Of Volatility with Risk of Loss

Investors tend to confuse market volatility with risk of loss. Volatility means variation in the price of stocks, which occurs all the time. Risk of loss means investing in a company which fails or goes bankrupt.

Selling when market prices are volatile but the economy is still viable locks in the very loss an investor is trying to avoid. If you maintain a diversified portfolio, you will experience market volatility, but minimize or avoid the risk of loss.

Windecker **Financial Planning LLC**

Financial Planning & Investment Advisory Services

PO Box 3325, Merrifield, VA 22116
george.windecker@windeckerfp.pro
(571) 310-3520
www.windeckerfp.pro

Use Your Emergency Funds in a Crisis

An emergency fund exists to alleviate the financial suffering that you might experience from a temporary loss of income. An emergency fund is not sacrosanct, but the reward for having saved for a rainy day. Use it.

Talk About Money

Talking about money may be just what a couple needs to take effective action in dealing with a financial crisis. Schedule time to talk about the crisis. Focus on the problem (our income has dropped by 50%) rather than on the person (you lost your job).

Pay Your Bills

Continue to pay your bills promptly and on time during a financial crisis. This is not the time to jeopardize your credit rating, which affects the interest rate and availability of obtaining future loans, access to insurance coverage, and securing an apartment to rent.

Tap Low Interest Rates

Interest rates on mortgage loans, student loans, and other debt fell dramatically in the epidemic. This is a good time to refinance your home, consolidate your debt, or pay off high interest rate loans by obtaining a home equity line of credit.

Avoid Early Withdrawals from 401(k) Plans

Your retirement funds *should be the last place you go for money in a crisis rather than the first.* If you withdraw funds early from a retirement savings plan, you deprive yourself of future tax-deferred growth, which you need to adequately prepare for retirement. Even if the penalty for early withdrawals from a 401(k) plan is waived, as it currently is under the Cares Act, pre-tax savings will be taxed as income in the year of withdrawal.

Avoid Reducing Your Retirement Funding

Individuals often reduce or suspend contributions to their tax-deferred retirement plans during a financial crisis. But if market prices have dropped in the crisis and you reduce or suspend your contributions, you miss an opportunity to invest at advantageous prices.

Don’t Cancel Your Insurance

Individuals often cancel their insurance policies to save on paying premiums. You are putting yourself at greater risk of loss should an event occur for which the insurance provides coverage. Use your emergency fund to replace current income.

Retirees: Avoid Drastic Cuts to Retirement Spending

During a crisis, retirees might see their portfolio decline and decide to compensate by taking drastic cuts to their retirement spending. Drastic but short-term cuts in retirement spending, however, might not help you in the long-run. If the portfolio decline warrants, the bigger impact will come from skipping a 2 to 3% cost-of-living adjustment. The cumulative effect of this incremental reduction will likely be greater than a one-year drastic cut in your retirement spending – and less painful to implement.

Disclaimer

The information presented in this newsletter is based on information the author believes is accurate and correct. Individuals must do their own due diligence before taking any actions discussed in this newsletter. Nothing in this newsletter should be construed as a solicitation or offer, or recommendation, to buy or sell any security, or specific advice to any individual person. There can be no assurance that any matters described in this newsletter will lead to the expected results or perform in any predictable manner. PAST INVESTMENT PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS, AND FURTHERMORE, ALL INVESTMENTS INVOLVE RISK AND MAY LOSE MONEY.

COPYRIGHT 2021 WINDECKER FINANCIAL PLANNING LLC