Pomegranate Financial

Refresh & Simplify
Your Financial Life

Newsletter

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# Analyzing The Macro Economy ≠ Personal Investments

A recession is coming! The recession is here! The market is going (fill in the blank). The economy can't handle (fill in the blank).

You likely have heard similar declarations by many. These strong statements might make you think twice about your money and investments.

Should you make a change?

No! Personal investments in the stock market should not be based on current events. Personal investments in the stock market are based on your financial plan. Your money should have a purpose - different assets and accounts that all have different purposes and timelines.

Your investment purpose is driven by the plans that you/we have made (or are going to make) - not on current events.

Likewise - a coming recession only matters to you if it is a personal recession. Are you prepared?

It might be the loss of your job, a natural disaster, an injury/illness, a family emergency, theft, etc. Those are all personal investments  that may or may not have anything to do with the macro economy.

What is your backup plan? What will happen? How will you react?

We can make predictions for what the market will do this year. We could be right or likely be wrong. But our time will be more wisely used to solidify and prepare a backup plan for when the personal recession does happen.

A common occurrence: you look at a headline from Yahoo or CNBC and it states the exact reason why the S&P 500 or NASDAQ went up or down that day. It reads as if that is solid truth. I catch myself just believing these headlines, but the reality is that CNBC does not actually know. There could be hundreds of reasons why the market moved. A one sentence headline will not explain the movement of the market in a day. But more importantly, it does not matter and should not matter for you. Your personal investments and the changing of them (whether withdrawing funds, changing investments, or investing funds) should not be based on the macro economy nor the headlines that predict the reasons why.

It's the same story if you follow Jim Cramer. He will talk as if he is stating exactly what will happen. But most of the time he is wrong. Remember - CNBC, Jim Cramer, those headlines and tweets - are for entertainment and to make them money. They are not for you to base investment decisions off them.

**Emergency Savings**

It can be hard for some to grow and maintain an emergency fund. Especially at times when you see your investments grow and your emergency fund idle. But it is crucial because personal recessions often sneak up on you and the emergency fund provides that stability while decreasing your stress. Take a look at my newsletter on Emergency Funds from September 2022 to learn how you might break up your emergency fund in different ways to at least earn some interest/return.

## My Personal Recession

Personal recessions can come in all shapes and sizes. I experienced one last year. My family and I went to India to adopt our third child. Normally, I prefer to buy round trip flights, but I had a bad experience with flights with our second adoption in India that I decided to only buy one flight there. This is because the adoption process and timeline can vary so you may not know when everything will be finalized to come home. This time, once the adoption was finalized, flights had more than quadrupled if we wanted to return home that week.

We were so tired and eager to return home that I decided to purchase flights for my family totaling around $15k! Of course, I had not budgeted that much in our finances so it hit our savings real hard. In hindsight we should have waited a week longer to save ~$7k or so. This was a personal recession brought on by our own decisions.

Our financial situation was worsened due to a vacation to Hawaii (I know, sounds terrible, right). Previous to our trip to India my wife had purchased very cheap tickets to Hawaii (in June). By the time our trip came around in October the damage had been done from the India flights. Hawaii was expensive despite our cheap flights and even camping instead of hotels!

In addition, a year earlier I had purchased solar panels and put the cost on my HELOC. It was the right decision financially, but with interest rates rising they were becoming more expensive (more on that in a later newsletter).

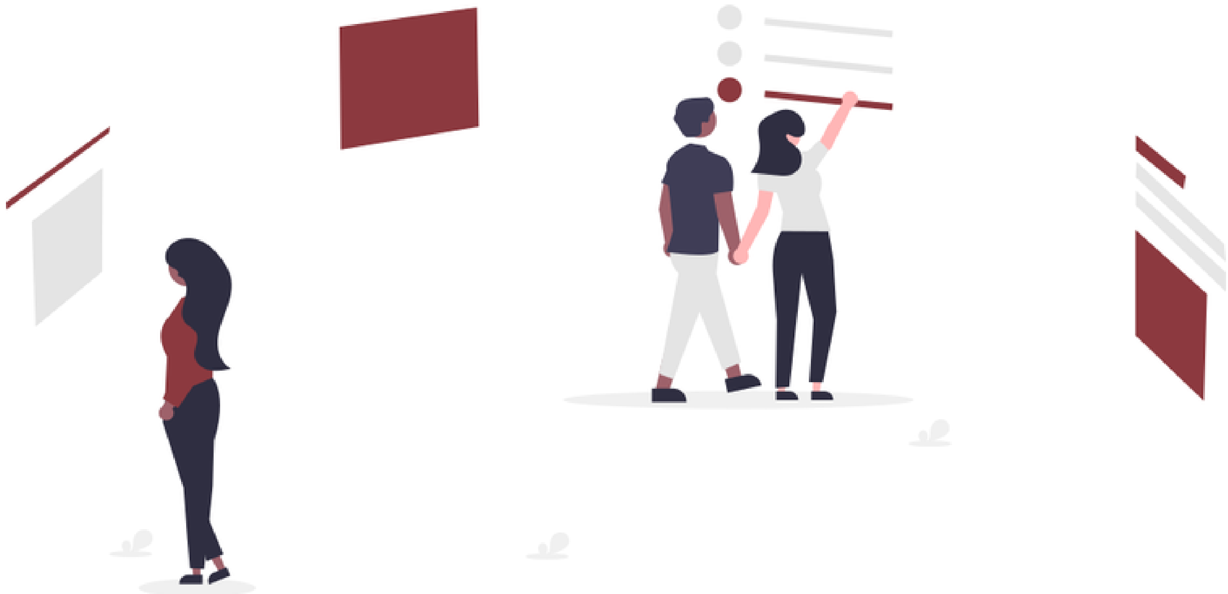
So to minimize interest I knew I could transfer that HELOC balance onto a 0% interest credit card for a 3% fee. Essentially paying a ~3% APR rather than 6, 7, 8% on my HELOC. The downside being the high credit utilization and thus my high credit score. For me it was worth the cost as I didn't have any short term plans for applying for any loans.

My emergency fund is broken up into different types of accounts. For example, in April 2022 I put some of my emergency funds into I Bonds (not expecting a personal recession in the near future). But you cannot withdraw your I Bonds during the first year so I couldn't access that savings. I used my credit cards and other savings to pay for the expenses. All the credit cards used were 0% interest and sometimes with a 3% or 4% transfer fee. I had additional savings that I decided to not touch (cash value life insurance, more on that in a future newsletter).

Thankfully, with my savings and credit cards flexibility we managed to get through the personal recession over the next 6 months. It cost me more because of the transfer fees (3%/4%), but my untouched savings was also earning greater than 4% so at least the interest was offsetting each other.

I provided this information to show an example of a personal recession and how you can minimize the effects through different strategies. It's a careful balancing act of financial flexibility between savings, credit cards, HELOCs, investments, loans, etc. Were my strategies perfect? No. Could I have saved better? Yes. I made some dumb decisions and I have certainly learned from the experience.

However, I see too many situations where people make much worse. They put everything on a credit card earning 20%+ interest and slowly pay it off. Or they take money out of their investments like their IRA/401(k) costing them 30% of their money. These are terrible solutions and should only be used as a last resort. Financial flexibility and strategies like I used can save you thousands of dollars.



**Let's talk about your plan in the event of a personal recession.**

**Which source of funds do you tap first?  Which funds do we look at second?**

**What are some strategies we can develop now to increase your financial flexibility and decrease the costs in the event of your personal recession?**

**How can we avoid pulling out investments unnecessarily?**

**We can ignore the CNBC headlines, focus on the purpose of your accounts, and improve your financial flexibility to adjust to your own changing financial life.**

Blake Jones, CFP®, EA
Mobile: 385.985.4434 | PomegranateFinancial.com
PomegranateFinancial@gmail.com