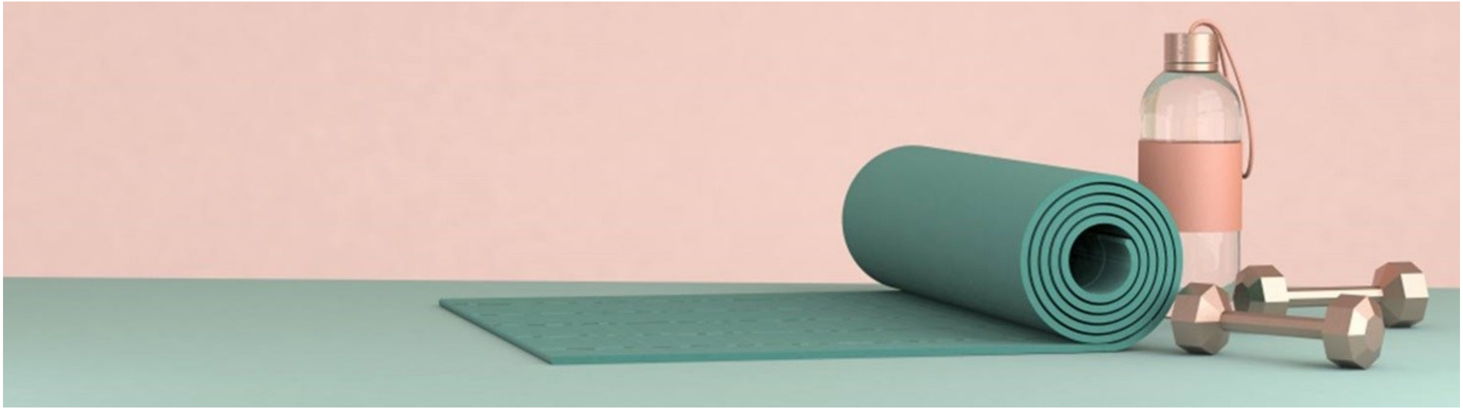
HOW TO LOOK AFTER YOUR FINANCIAL HEALTH DURING CORONAVIRUS



PERPETUAL
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Everchanging events have continued to unfold swiftly, and likely to be the case for the foreseeable future. The COVID-19 headlines have had many of us rethink our futures, as well as our finances. And although most COVID-19 cases are mild, it may not mean the same for your finances. We suspect markets will continue to be volatile and even with the Government making a huge effort to react to the effects of coronavirus and mitigate the weakening economy it may be a while until things stabilise. But where there's uncertainty, there is most certainly opportunity, so it's not all bad news. The Australian economy was also pretty healthy pre-coronavirus, so it could make a quick recovery but there is no guarantee of that. At this stage, nobody really knows how long.

As uncertainty reigns, we'll set out to answer four common questions you may be asking, as well as give you some tips so you can look after your financial health, while you take good care of your physical health.

1. **What are ways to prepare for a possible recession?**
   Good news, there are several ways to prepare for a possible recession.

   Set up an emergency savings account

   At Perpetual, we're huge fans of setting up an emergency savings account for financial emergencies (much like unprecedented events unfolding now), which generally is about three to six months of your take-home pay. So, if your income is likely to take a hit because of COVID-19, you'll need to cut down on non-critical spending until you can go back to work so you can work on setting up a safety net. It's easy to think of non-critical spending as anything that will not further your financial position and not a critical 'need' e.g. food, rent and utilities. And we know it's tempting, with a lot of industries also struggling, they'll fight tooth and nail for your dollar with glorious sales and delightful promotions. But we believe in you. Abandon. That. Cart. And listen, it may be asking a lot, but it may also be good to keep those cuts in place once you are back at work until you do have emergency savings account in play.

Even if you do HAVE an emergency savings account review your spending

Even if you do have a health emergency savings account (and good for you) it's also a good time to review your spending. We recommend spending more mindfully. Look at your transaction histories and highlight anything you've been paying each month that you don't truly need (or, worse know about). Then look at those highlighted lines and deliberate on what you could be pressing pause on, at least until we're out of the coronavirus woods. Also, don't overspend on stockpiling goods! Buying what you need will reduce waste (in the form of both money and food). The government has also stressed supermarkets will remain open, so if you've got on the panic-buying wagon, please get off.

Also, it's important to note, with interest rates at an historic low, you're going to be earning less interest in a savings account (learn about investing and saving here).

Think about refinancing your loans

And while we're talking about interest rates, it's an opportunistic time to consider refinancing your debt at a lower interest rate, to save money. If you own a home with a mortgage for example, it may be a good time to look into refinancing your mortgage. Traditional rules of thumb say to refinance when interest rate are 1-2% lower than what you're currently paying.

Pay off bad debt

Paying off debt is one of the best ways to further your financial position. Generally, and very simply:

Wealth = (what you earn + what you own) – what you **owe.**

We recommend starting with paying off debt with the highest interest rate (which will likely be credit cards). Learn more about paying off debt here.

Upskill / Educate

Always use downtime as an excuse to further your skill set. It's likely you're in some form of lock down, and with many things cancelled, you now have ample time to upskill. Investing in yourself often pays dividends for your financial future. Ever wanted to learn more about investing? Check out the Financial Acuwomen hub.

Finally, don't obsess about your investment balances

It's tempting to take a peek at your super balances as well as any investment accounts you may have but try not to obsessively check your accounts. Everything is uncertain at the moment, and that will likely have an affect on your accounts. We get that seeing your balances decrease may not feel good and it's tempting to take your money out or change things up, but generally emotions make for terrible investment decisions. Although there is no guarantee, it's likely markets will eventually recover (at least that's been the case historically).

2. **Are we going into a recession?**
   A recession is generally declared when there are two quarters of economic decline in a row. Looking at markets recently, as well as historically, we are currently seeing a sharp slowdown in economic activity. There's also a lot less activity in general e.g. less travel, manufacturing, consumer demand and social distancing has been encouraged throughout the globe. This kind of contraction in economic activity is the hallmark of a recession. And it does look like we are heading that way. We don't know how long it will last, and that uncertainty is certainly driving market volatility.

3. **Is it a good idea to invest more when the sharemarket is down?**
   If you are young and investing for the long-term, then yes, investing in the sharemarket when it's down may make sense for you. Although instead of making one huge lump sum, we generally recommend, making smaller, incremental investments. This will mean you won't obsess over day-to-day fluctuations or second guess the 'right day'. Learn how to invest here.

4. **How does an investment portfolio recover after a loss? What is the worst way to respond?**
   When the sharemarket falls, it means shares on the market have lost value (meaning the company's (whose shares you have pursued and own) value or earning potential has decreased, due to things like a lack of consumer confidence). So, when the sharemarket falls, so does your portfolio's balance. But here's the thing if you leave your money invested and markets go back up then so will your portfolio's balance.

   So, generally, the worst thing you could do would be to withdraw your money after the market drops, in fears that it may further drop i.e. as they say, you are 'locking in you losses' and you wont have the opportunity to let your portfolio go back up.

   Also, it may be tempting to purchase shares that are performing well, right now. For arguments sake, you could see companies who make hand sanitisers and face masks increase, and it may be tempting to invest in them now, but very hypothetically if there was a vaccine or cure, it's likely demand for those items may not be as high as they are right now, and those company's may face an oversupply, which would likely see their value decrease quickly. Also, we've seen changes in consumer behaviour, such as hoarding, so you may see spikes for some consumer goods right now, but it means people will have an over supply for some time, which may mean poor sales next quarter/year.

No matter what impact COVID-19 may have, it’s always a good idea to review your financial situation. And since money is usually our number one source of stress (before COVID-19, at least), smart self-care can help you take some sort of control in these stressful times.

Wash your hands, don’t touch your face …or your investments and please, stay safe.