

How to Prosper in a Recession

The stock market and economy have taken center stage recently. The headlines and the television newscasters remind us daily of the serious financial situation America is in today. The stock market meltdown is a major concern for people wishing to retire in the near future. Investment portfolios have lost on average 40% due to the financial crisis. Trillions of dollars have disappeared from retirement funds. Millions of baby boomers are seriously rethinking retirement.

Remember when Social Security and Medicare were the main subjects of conversation. In 2005, the Social Security trustees admitted that Social Security would be insolvent by 2017 due to the number of people reaching retirement age versus the number of people paying into the program. More benefits will be paid out than will be paid in by taxes. The program is expected to go broke by 2041 according to the trustees. These headlines are no longer getting our attention thanks to the financial storm we are in currently.

Experts agree that we are in a recession. By definition, a recession is two consecutive quarters of negative growth in the economy. The effects include escalating foreclosure, bankruptcy, and unemployment rates. In October 2008, the U.S. Department of Labor announced the unemployment rate was 6.5% which is the highest rate in 5 years. People worry about their incomes and spend less, causing the economy to shrink more. If there is too much of a downward spiral, it becomes a depression.

It's not surprising that 77 million baby boomers are nervous about retirement. This article is intended to provide hope to anyone who has been a financial victim of the financial crisis that many have compared to a financial hurricane Katrina.

Begin by organizing your debt. Your debt could be dragging you down more than you realize during a recession than any other time. There are several ways to seriously handle your debt:

Create a budget and get control over your spending IMMEDIATELY! Put yourself in a situation where you have as much cash as possible. Put a handle on the amount of money you're spending. Reduce unnecessary expenditures. Put off the "around the world cruise" until the economy is in positive territory and there are no threats to your income.

Create an account at your bank and use it as an emergency fund if you don't already have one. The goal is to have at least one thousand dollars in the account as soon as possible. It is to be used in cases of emergencies not to replace income. An emergency fund will help reduce the stress levels as well as cover for the unexpected events in life that would otherwise put you further into debt.

Attack debt aggressively! There are several options to getting out of debt:

Eliminate debt with highest interest rates.

Many financial planners advise that you begin paying off your credit cards with the highest interest rates first. Their reasoning makes sense but you may want to begin an aggressive campaign to pay off the credit card with the lowest balance first then making extra payments on the credit cards with the highest interest rates. This will provide you with a sense of accomplishment as well as additional money to put towards the remaining credit card payments.

Consolidate your unsecured debt.

You probably have heard of non-profit companies offering debt consolidation services. What these companies do is negotiate with the credit card companies on your behalf to lower the interest rates. Your total monthly payment will remain the same or it may increase if the debt is to be paid off in a shorter period of time than the normal time period. For example, let's say you have four credit cards and owe \$12,000 in total credit card debt. And let's assume that it will take you eleven years to pay off the balance by making the minimum payments. A debt consolidation company will negotiate lower interest rates with the credit card companies in order for you to pay off the balance in less time. This may cause your monthly payment to increase and it will also negatively affect your credit report because this type of service is considered to be third party intervention which appears on your credit report as a bankruptcy.

Settle your unsecured debt.

The services of a debt-settlement company are much different than the services of a debt consolidation company. Debt-settlement companies negotiate the debt balances with your credit card companies on your behalf. Using the example above, your debt could be lowered by as much as 80% as a result of the negotiations. You would be making payments to pay off a \$2,400 debt balance rather than making payments on your original \$12,000 debt balance. Your monthly payments would be greatly reduced and you could be out of debt within three years rather than eleven. Your credit report will be adversely affected. Your creditors will report late payments or account settled to the credit bureaus. These remarks will lower your credit score and make borrowing for large ticket items difficult.

File bankruptcy.

Bankruptcy is designed to help people who are insolvent and cannot pay their debts. Bankruptcy requirements and laws have become more stringent in the last several years for people wishing to apply. Keep in mind that bankruptcy is not a "get out of debt free" pass. There are attorney fees and, depending on the type of bankruptcy you are awarded, you may need to continue making payments to your creditors. Obviously bankruptcy reflects negatively on your credit report and can remain on your

credit report for up to ten years and can prevent you from obtaining credit, insurance, an apartment rental, and even employment. This choice should be your last resort.

Make more money! That's right. Even in a recession there are opportunities to make more money than you were making before the recession. There are many industries that are unaffected by recessions and there are industries that thrive during recessions. Let's examine the current conditions. Interest rates are extremely low. Ordinarily this would be the ideal time to borrow money or refinance your auto or home. However money is tight. The banks are reluctant to lend money out of fear that the money will not be repaid. With interest rates this low, investors are having difficulty finding investment vehicles to grow their money. The stock market traditionally has provided double-digit returns. Do you think anyone in their right mind is willing to invest heavily in the market today especially after experiencing a 52% decline in just one year? Foreclosures are at record levels and people are struggling to pay their mortgages on time. Even more are having difficulty paying their property taxes. People are concerned about their jobs. Major corporations have announced significant layoffs which will ripple through the economy.

Right time and right place. Taking these conditions into perspective, it would appear that people who could provide information to investors with options to grow their money aggressively (from 8% to 50% annually) with little or no risk, would be in high demand. People who could show others how to begin a business allowing them to replace their income would be in high demand as well because home-based businesses offer tremendous tax benefits as well as income opportunities.

Prospering during a recession will require you to organize your personal finances in a way that will free up money. Use this money to create an emergency fund if you don't already have one. Use the remaining money to invest in high-return, low risk investments and to start a tax-reducing business. This business will help investors find opportunities to grow their money and help others concerned about their jobs to reduce taxes and replace their income with a home business as well. When you help enough people, you will prosper and spiral up and out of this recession with enough momentum to put you on the track of becoming extremely wealthy.

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