Wi$eUp Teleconference Call  
March 31, 2009  
“Putting the Pieces Together to Weather the Economic Downturn”  
Speaker 1 – Bedda D’Angelo, CFP

Jane Walstedt: Now I’d like to ask Cindy Henning, a Program Analyst for the Women’s Bureau Regional Office in Atlanta, to introduce our first speaker. Cindy...

Cindy Henning: Thank you Jane. It’s my pleasure to introduce Bedda D’Angelo. She’s a Certified Financial Planner and is the President of Fiduciary Solutions, Inc. in Durham, North Carolina. Fiduciary Solutions provides financial management services, including comprehensive tax, insurance, and estate planning services. Bedda D’Angelo has over 25 years of industry experience and she draws on a broad knowledge base in financial planning, investment management, and trust administration to develop personalized financial plans for her clients.

Before she founded Fiduciary Solutions, Bedda held executive positions in the banking and investment management industries. She has been quoted in Business Week, Newsweek, Forbes, CBS Market Watch, Smart Money, Wealth Manager, and the Journal of Financial Planning. Ms. D’Angelo is a member of the Financial Planning Association, and it’s my pleasure to welcome Bedda.

Bedda D’Angelo: Thank you, Cindy. I guess with all those quotes, what it means is that I talk a lot.

I guess my primary…what the primary consistent thing that I have been doing for over 35 years is managing investment portfolios. One of the things that I… even though this particular recession is being billed as the Great Recession, the worst since the Depression, the fact is when I go through my marketing materials and I look at different articles, I’m just pulling out the
same articles and recycling them that I’ve pulled out for the last six
recessions. I figure that since I’m 62 and just qualifying for Social Security,
and they happen every six years, that at least the next one I may be retired and
I won’t have to deal with all the emotions of my clients.

Today I’d like to talk about short-term financial strategies, how to get through
this crisis, the importance of managing your emotions. Because there is so
much, “Oh this is the worst. This is bad. We’ve never had it this bad.” The
fact is, I’ve seen…since I’ve been in financial services for so many years, it
seems to me to be more of the same. Just the numbers are slightly different.

This is worse than the 1974 recession. It’s not as bad as the 1982 double-dip.
That’s based on the numbers. And since I talk to the media a lot, I know that
they like to get people really upset, but that’s not really a healthy way to get
through a crisis. You need to stay focused and rational.

Then I’ll talk about long-term financial survival strategies. Right now the
unemployment rate [projected rate of unemployment for this recession] is at
10%. That means that 90% of people are [will be] employed, so there are
[will be] a lot more people employed than unemployed. And so the question
is how do you get to be on the list of people…there are many people who
manage to go their whole career without getting laid off.

[Post-Call Addendum by Bedda D’Angelo: There are two commonly used
unemployment rates: the unemployment rate published by the Bureau of
Labor Statistics (BLS), which was 8.5% as of March 31, and the Barros
unemployment rate, which measures claims for unemployment insurance, as
well as workers who have aged out because they have exhausted their
benefits, workers who were offered early retirement severance packages
(which accelerated in 2007), workers who start businesses because they can’t
get a job, and workers who are underemployed. The Barros unemployment
rate is presently at about 15% and projected to top out at about 17%. In the Depression of 1933, the BLS unemployment rate topped out at 24.9% and the Barros rate topped out at 45.6%. The key to weathering a recession is to build an emergency fund and proactively manage your career so that you are always part of the percentage who are employed. Many of my clients have gotten promotions and raises in this recession because after their companies let people go, the people who were left had to do more work.]

Then once you’re past survival - getting past survival--I’d like to talk briefly about strategies for financial abundance, which I realize is kind of a touchy-feely word. But living in survival is not fun, and so at a certain point you want to get to the point where you have more than just survival. You want to have more than financial security. You really want to feel like you have abundance. And abundance does not mean greed. It means that you have enough, that you feel like you have enough.

So let’s talk about, very practically, what you need to do to get through this particular financial crisis. And I’m assuming that people actually are unemployed, because that’s what I’m really talking about today - surviving unemployment. And whether you’re unemployed, think you might be unemployed, or completely employed and have no prospect of losing your job, the first thing that anyone needs to do is a cash flow analysis.

And in doing a cash flow analysis, the first thing you do is you look at what you have. You look at your resources - what you have to work with. And the first thing you look at is sources of income, then you look at your savings, and lastly you look at your lines of credit. And we’ll talk more about that in a second.

The next thing you need to do is identify your expenses. You need to know exactly the minimum amount of money you need to get by each month. And
expenses come in two flavors - there’s fixed and there’s variable. And once you know what you have to work with and how much you actually have to come up with, it becomes possible to create an action plan and implement it.

In looking at your sources of income, typically there’s…when your prior…when you’re unemployed, there’s several sources. There’s severance pay; there’s unemployment insurance. Some people they’re married, so they live on…off of their spouse’s income. People who are single parents may have child support or alimony.

Some people…many people have investment income. Investment income means that you have some money in savings or CDs. Maybe you have dividend-paying stock, so you just start taking the dividends as income. Many people have part-time or freelance work.

And if you really want to generate cash, a lot of people just finally clean out their closet and they sell their excess - the things they’ve been intending to sell on Craigslist or eBay. And for the short term, that is a great survival strategy.

Once you know where your money is coming from -- and that’s income, money that just flows through -- the next place you want to look is at your savings. And the first thing that you look at is in your checkbook - how much do you have in your checkbook--which is your regular money. And probably most of you have heard people of my ilk -- financial planners -- say you should have three to six months of living expenses in an emergency fund. And I know how many people don’t do that. So that is a source. But if…that may not be source this time. Maybe it will be a source in the next recession.

Other places would be taxable accounts such as brokerage accounts or mutual funds. Many people who work for corporations have stock options that are in the money even now that they’ve never exercised. Or they have stock from
their employer that’s in a stock purchase plan that they could liquidate. Some people have IRAs. And then 401(k)s are a savings, but I’m going to talk to you in a minute about why I don’t believe that is a good place to go when you’re in a recession or unemployed.

The next place to look is your lines of credit. And one thing I have on my list there is if you own a life insurance policy--whole life policy--you may have cash value in it. Now I call that a line of credit because I’m going to recommend, instead of cashing out the money on that, that you simply would put your life insurance premiums on auto-pay, which is really a loan against the policy. And that way you can reduce your life insurance premiums and still have that…keep your life insurance in force.

Another thing is an unused home equity line of credit. Hopefully you have some unused home equity line if you own a home. And then credit cards, which again I’m going to explain to you why I don’t think if you’re unemployed that is a good place to go to for your emergency funding.

Once you’ve identified your resources, then you want to look at your expenses. What do you have going out? Well it’s important that you have a place to live. So you want to…you have…you need…your fixed expenses would include your mortgage, your rent, your property taxes. I think medical and health care insurance a lot of people when they become unemployed let that go. If there’s any way you can afford to get that or shop around, many states--like Massachusetts, for instance--have a state-funded health care plan for people that are unemployed.

Life insurance premiums - we already discussed that. Auto insurance - you need to pay your auto insurance because inevitably, if you let that lapse during an economic…or when you’re unemployed, inevitably you’ll have a car accident. And of course if you are paying money on your auto loan, you need
to do that. And all of your loans you need to pay the minimum to keep it going so that you don’t lose your credit rating.

Variable expenses that you actually have some ability to maneuver are utilities. Some of the things with utilities…it’s the old thing of turning off the lights. Many people, if they looked at the their cable TV bill or their Direct TV bill, they would see that there’s all kinds of - well, actually Direct TV I think it’s all-in-one - but the cable TV, there’s all kinds of premium channels that you could live without at least for a short period of time.

The same thing with Internet services. I know a lot of younger people do not have land lines and they have cell phones. Of course, people in my generation would give up our cell phones if we could, but not our land lines. You need…many people, if you’re not working, maybe child care is something you can cut.

The biggest and easiest thing to cut, though…most people I find--dining out is probably the easiest expense where there’s the most flexibility - that you can fix food at home. And then that I find very frequently is where people can cut.

And then of course I guess when you’re unemployed you might want to forego a vacation or you might want…you can cut your entertainment budget.

And then, yes, you can cut your charitable contributions if you have…you know, if you don’t have the income, you really cannot make those contributions, even if you’re charitably inclined.

The next step is to create - once you have your resources and your expenses--then you need to create an action plan. Or, as my mother used to say to me,
“If you have to dig a hole through a mountain, and you only have a teaspoon to work with, you’d better get moving.”

Step 1 - You’re going to apply for unemployment. We’ve already talked about the expenses, identifying them. Now you’re going to go through your expenses and cut out anything you can live without for now. And this is just because it’s survival.

Then you - once you have cut out your expenses and gone through--you’re going to come up with a number--a total of how much you absolutely must have each month to stay in your home. And at that point you’re going to go through your sources of income and figure out exactly how much of your monthly expenses you can cover without tapping your savings or your lines of credit.

Presumably if you’re unemployed you’re going to have a shortfall. And at that point you look at what savings you have and you portion it so that you’re not going out and using all of your savings at once. You make your savings into an income stream for the period of your unemployment.

Now a lot of people…career counselors say that you should not go look for temporary work when you’re unemployed. Other people say it’s going to reduce your unemployment. I actually think that under-employment is better than no employment if you’re in a deep recession. Or sometimes you can get part-time or freelance contract work, consulting work. A good place to look for that is Craigslist, just to get like cash flow going. Sometimes that is a better source of income than unemployment, or at least it’s money cash flow coming in.

It’s really important to get into action with your job search - your resume, your cover letter, information interviews. Go to Monster.com. If you have
out-placement from your employer, just get it done. All of this analysis needs to be done immediately. In fact, a lot of people when they’re unemployed for great lengths of time…I remember in Boston, when I was in Boston in the 2000 recession, we’d hear about people losing their houses after being unemployed for two years. Well of course if you’re going to be unemployed for two years.

So the whole key to survival is get this cost-cutting done no later than the Sunday evening following your last day of work. And if you’re still employed, do it anyway, because it’s just a good self-discipline. And that way…I mean, if you’re still employed, then you can look at the excess and use that to start paying off any credit card debt or home equity or other kinds of debt.

So that’s… what happens if you have a prolonged period of unemployment is all the things that I’m recommending you do anyway, because it’s forced upon you, but then you don’t survive with your credit rating and your home. So you need to get into action right away.

Once you have the analysis done, and you’ve identified how much of your savings that you’re going to use to cover the income shortfall, your next step, if you still have a shortage, would be to go to your home equity line.

You don’t want to sell stock or mutual funds if you can help it, because the market is down, so you’re not…you’re going to get a very reduced value. And when I talk about stocks or mutual funds, I’m talking about taxable accounts that you may have.

I would recommend, if possible, leave your 401(k) where it is for now. Because when you’re re-employed you will be able to transfer it to your new employer’s 401(k) plan, whereas, if you take it out now, you will have to pay
income taxes on it, and if you’re under 59 1/2, which I assume you are if you’re on this call, then you’re going to be paying a penalty for early withdrawal.

And lastly, don’t use your credit cards, because we’ve already identified a number that I call your minimum monthly nut that you have to fulfill. If you use your credit cards, you’re going to increase that number, and it will become like a downward spiral.

It’s really hard, when you’re not working or you fear that you’re going lose your job, to manage your emotions. But it’s really important to understand that, and the media is awful. They make it like whatever crisis is going on today is never…has never happened before. And that’s because they have to sell their stories. The fact of the matter is, there is a recession about every six years--a downturn--and the economy contracts, and it’s a very normal thing.

So it’s not who you are as a human being when your job is in jeopardy or you’re unemployed. It’s your role as an employee. So we all need to separate the roles we play -- as employee, wife, mother, daughter, et cetera -- from who we are as a human being. And when some of our roles that we have in life are not going well, we still need to keep that inner core of who we are as human being and be okay with that.

It’s really easy - when you’re unemployed, you’re alone more, you’re not going in to work, you’re not seeing your friends, you don’t have any money, so you can’t go out and have fun--it’s really easy to get depressed. But at this point, if you give in to self-pity, it’s a luxury you really can’t afford, because it will only prolong the agony of making…and make it harder to get a job. You need…when you have…I mean, getting a job is a lot of work - getting those resumes out. And at the end of the day that’s what you need to do to get
back - to survive. So you really have to put your feelings of worth - of not feeling good - you really have to put that on hold when you’re unemployed.

And you also have to stay focused on the long-term and know that whatever is happening today is not forever. I, even with this recession--and this is my sixth one since I have been working in this industry - I spoke to my dad who is hitting his 90th birthday, and he says, “Yes, sometimes it’s good; sometimes it’s bad.” It’s all a matter of perspective.

And even some of my clients who are, you know, they’re Baby Boomers that are thinking about retiring, and they’re very upset because they’ve lost so much of their money in the market. And I say, “But look, last time - the last recession--we didn’t have any money.” And that was 1982 when it…the last time it was not…it was even worse than this. But we…so whatever happens in your lifetime, it’s not forever.

To get through it, manage your emotions, just stay focused on your action plan -- your financial action plan -- and your job search. Do something physical every day--working out at the gym, walking. Find a support group and reach out so that you’re staying socially connected, because it’s isolation - - that I know from other people’s past experience and my own -- that is very difficult.

Once you’re dealing with the short-term financial -- the fact is you will get another job -- let’s look at long-term financial survival.

Jane Walstedt: Let me just interrupt you a minute, Bedda. We kind of got to wrap it up because it’s been about 15 minutes...

Bedda D’Angelo: I was just about to wrap it up.
Jane Walstedt: Okay. Thanks.

Bedda D’Angelo: What I was going to do to wrap up is to say whatever I said about savings, et cetera, the next time…as I said, it’s a six-year…a recession comes along every six years. So go ahead, after you’re back working again, and say, “Shoulda, coulda, woulda,” at that point, look at what you “shoulda, coulda, woulda” done with respect to savings, with respect to investing, with respect to doing your 401(k). And at the end of the day, long-term financial abundance means having a job and a career that you love, that you actually really do want to spend time at. The end.

Jane Walstedt: The end. Well thank you. A lot of food for thought, and I appreciate your positive attitude and your pep talk to our listeners.