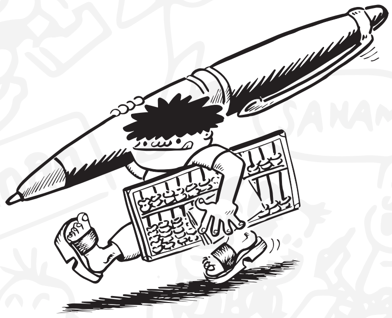


TIPS ON HOW TO BE FINANCIALLY PREPARED FOR ECONOMIC DOWNTURN

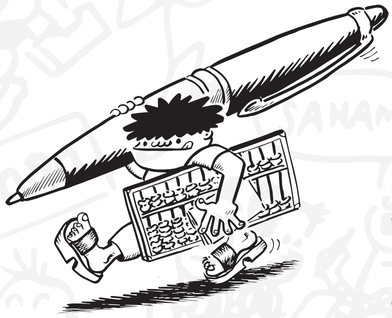
Are you prepared for the next global economic downturn? Here are some tips for you to get financially ready for any economic or financial crisis:

1 Tip #1: Invest in yourself to increase your earning capacity

How can you be more relevant or valuable to your employer? If you took the time to appreciate yourself by emphasising personal growth, not only would you further understand your value, but the society around you would too!

How?

- Chart your career path and consider taking online classes that will improve your credentials.
- Find a mentor, a person with a higher position and vast relevant experiences who has been on the same career path that you are targeting for.
- Evaluate your existing job. Give it twice as much of dedication, and throw in a bit more effort and go for that promotion!
- Aim for employee of the month or other types of recognitions and make sure your working records and image are crystal clear. When job cuts occur, they start with the weakest link.
- Pick a good side hustle or go on a job hunt for one that pays better.
- Don't wait to better yourself only when you are unemployed!



2 Tip #2: Maintain an emergency fund of at least 6 months for your expenses

- Do you have an emergency fund?
- According to a 2018 AKPK Report on Financial Behaviour and State of Financial well-being of Malaysian working Adult, more than half (52%) of those earning less than RM2,000 cannot afford RM1,000 emergency expenses.
- The basic principle is to set aside up to a half year of your monthly expenses. Ideally, the more the better, enough for a year.

3 Tip #3: Settle all your debts, especially high-interest loans

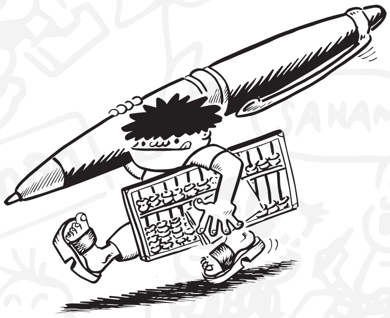
- We must pay all debts.
- If you can't, at least prioritise those with higher interest rates first.

Why is this important?

- If you ever face an economic downturn, the chances of you being laid off are 50% higher.
- Losing a job with no income replacement is a big no-no. Without a regular income, you will deplete your savings soon.
- Soon, you will have to sell your assets to meet living costs. Eventually, you could end up bankrupt and homeless!

4 Tip #4: Cutting down your expenses

- Analyse your expenses and look for cheaper options.
- Prepare a sensible budget to follow and save some of your cash for future use.
- Beware of what you spend. Avoid buying things that deteriorate in value.
- Stop attempting to impress your neighbours or friends and live within your means.



5 Tip #5: Monitor your loan's 'credit score'.

o A credit score is a score that depicts a consumer's creditworthiness. The higher the score, the better the chances for your loan application to be approved. A credit score will refer to your credit history: number of open accounts, total levels of debt, repayment history, and other factors. Lenders use credit scores to evaluate the probability that an individual will repay their loans in a timely manner.

o You are probably wondering, should care about your loans' 'credit score' if the economy is going into recession? The answer is yes. The price of assets will reduce during an economic downturn as well as interest rates.

o As the prices reduce, you may want to buy properties. However, getting a loan from banks would not be easy. The banks will only approve loans to those who are creditworthy and meet the minimum loan eligibility according to their monthly income. Your 'credit score' must be in the top ranges before the banks can consider granting you a loan.

o First and foremost, make sure you do these 3 things:

- Periodically review your credit report (CCRIS).
- Pay off loans before their due date.
- Keep a sharp eye on any detail that could ruin your 'credit score'.

6

Tip #6: Change your financial mindset

You need to be aware that economic downturns are inevitable. Therefore, you need to work towards improving your financial mindset. Remember, emotions control everything.

How?

- Set your financial goals clearly:
  - If you want to save up for your first home, you need to calculate how much you can save monthly, and from there, calculate how long it will take for you to achieve the total cost of your new home.

- Outline and maintain good financial habits:
  - Once your goals are set, the next step is to create good and continuous financial habits.
  - Keep track of your money and make sure you put aside some amount for savings.
  - Start your savings with small amount, such as RM1 daily in a savings box. It is easy and not burdensome. Once you feel comfortable and are able to do it consistently, try to increase the amount of savings. You will save more without haste.

- Seek expert's advice:
  - Uncertainties surrounding financial decisions are common. Therefore, guidance and advice from licensed financial advisors are important to drive you towards a more structured and comprehensive financial plan.
  - Based on information on your financial history, financial advisors will identify your current financial strength and formulate a sturdy plan that are able to provide for less risky returns.