

Top 3 Ways to Build Wealth During a Recession

While recessions are often viewed as poor times for investors, it is not always the case. Believe it or not, there are ways to accumulate wealth during a recession. Below, we share three that we feel should be incorporated into almost every financial plan. Implementing these strategies will not only help you maintain, but perhaps even build your wealth during periods of increased volatility or an impending slowdown.

1. Maintain Liquidity

Maintaining adequate liquidity during a recession can be invaluable. Determine what you will need for the next 6-12 months for expenses and larger expenditures and keep this money parked in cash. This helps to prevent having to sell an investment when the market is down. For years, cash has been an unattractive place to keep your funds, with cash equivalents earning close to 0%. Over the course of 2022, we have seen this landscape change and you can now earn quite a bit in cash.

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2. Dollar Cost Averaging

For the cash you don't need to keep liquid, you might consider employing a dollar cost averaging strategy. This is the practice of investing a fixed amount on a regular basis. Think of your 401(k)s. Each paycheck you are setting aside a certain dollar amount and investing it in the market. You have essentially been buying on sale throughout most of the year. Combine this strategy with seeking out favorable valuations. Valuations do not just tell you how much something costs, but also what you get for your money in terms of earnings, book value, cash flow, dividends, etc. Buying when stock prices are cheap, and valuations are attractive improves the chances of increased returns.

3. Reinvesting

Reinvesting can supercharge your long-term returns because of the miracle of compounding. Think about utilizing a dividend reinvestment program for all interest, dividends, and year end capital gains. This allows you to buy more shares of your investment and build wealth over time. This offers you much higher return potential.

As we all know, it is exceedingly difficult to invest and stay invested when the markets fall during a recession. However, this can be when valuations are most attractive. Stay patient, keep in mind these basic, but important principles and stick to your long-term financial plan.



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