

# Will Your Personal Finances



# SURVIVE the Next Building Recession?

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A particular builder of custom luxury homes recently shared his experience during the 2008/2009 recession. Despite having been in business for 40 years, he was woefully unprepared to weather the economic storm. His company made deep spending cuts and sold company property, but the pain spilled over into his personal finances. During times of crisis, the first expense cut is often the owner's paycheck. This builder had to liquidate all of his retirement investments and sell his personal residence to avoid bankruptcy. With proper planning, this could have been avoided.

## THE WORST TIME TO SELL.

He sold at the worst possible time; his home lost close to 30% of its value and his investment accounts nearly 50%. If the builder was able to weather the recession without selling personal assets, he could have seen his home regain its previous value and his investment accounts could have recovered beyond their previous highs.

## HISTORY REPEATING ITSELF.

It is no secret that the construction industry experiences boom-bust cycles. A builder with 40 years of experience has likely faced several of them. Not surprisingly, new home construction tends to plummet with the stock market and real estate values during recessions. If business slows for builders and they are forced to sell investment assets, they may have to do so at a fraction of their previous value.

## WHAT HAPPENED?

Why wasn't the builder prepared? The builder failed to establish a proper margin of safety for his personal finances. Even though a builder may be aware of the likelihood of a future recession, it is difficult to predict the year it will happen. When profitability is high, builders have a tendency to allow their lifestyle to creep upwards, and when the economy turns they can no longer afford their new standard of living. This is preventable by establishing a robust margin of safety. It is essential for builders to establish a cash buffer for their personal finances in order to weather a recession without being forced to sell assets at deflated values.

## HOW YOU CAN PREPARE.

The best way to prepare for a recession in your industry is to build up enough liquid assets so you aren't forced to sell your investments and other assets at depressed prices. Preparation should be executed while business is good. It will be too late once the economy begins to turn and business slows.

Financial planning experts often use a rule of thumb of saving enough cash to cover 6 months to a year's worth of expenses. Unfortunately for builders, this amount is woefully inadequate. It took many homebuilders 5 years for revenue to stabilize after the beginning of the recession. Many builders have reported not seeing pre-recession levels of revenue until just last year.

Begin preparing by dividing your personal expenses between essential

and discretionary. Set a goal to save enough in cash to cover a minimum of two years of essential expenses without having to tap into your home equity or retirement savings. The assumption is you can lose almost all of your income during a two-year recession and still make your essential payments. As the economy begins to recover, your take-home pay will begin to increase and you will again be able to live off your income rather than savings.

Most importantly, always endeavor to live a lifestyle where you spend less money than you make. Now, while the economy is thriving, is the time to make good decisions to ensure your future. 

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*Cale Flage is a CERTIFIED FINANCIAL PLANNER™ professional, specializing in working with contractors to help them reach their financial goals. Cale, his father, and his grandfather were builders in Florida and Cale maintains a General Contractor's license (inactive). His combined financial planning and building experience gives him a unique understanding of contractors' financial planning needs.*

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