Nine-point plan to surviving the downgrade

The best response to SA being "junked" is to follow the advice of Rudyard Kipling and "keep your head when all about you are losing theirs", says Berry Everitt, CEO of the Chas Everitt International property group.

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"So much has been said and written in the past few days about the S&P decision to downgrade SA's investment rating to junk status, and the terrible consequences it could have for ordinary South Africans," says Everitt. "But, unfortunately, most of it is thin on advice about what consumers can and should be doing to mitigate those consequences. We would like to help remedy that, and have thus come up with a practical nine-point plan that people can start implementing right away."

Firstly, as in any negative situation, he says, the best response is not to let the opinions or actions of others cause you to panic or to fall into despair. "It is human nature to get caught up in the hype, but this is really not a time to be making impulsive decisions based on hearsay, or on the other hand to feel so helpless that you do nothing.

"There are ways to cope with the economic fallout that getting junked is likely to cause, but the key is to keep a cool head, move fast, and have the nerve to stick to your plan over the coming months."

Pay off debt

Secondly, if you have savings, keep only what is necessary in your "emergency fund" that is easily accessible, and immediately divert the rest - and any other money you can - to paying off as much debt as possible.

“This may seem like a radical move but one of the worst effects of reaching junk status is that interest rates are likely to rise, and that hurts most when you have a lot of debt,” says Everitt.

“You should always pay off the highest interest rate debts first. And if you have a home loan but no other debt, you should use your savings now to reduce the capital portion of the loan and help to keep your monthly repayments down when interest rates rise. At the same time you should make sure that you have a facility on your bond to re-access any additional funds paid in should you really need to do so.”

Third, you need to cut your household spending to the bone and actively work at putting every additional rand that you can save or raise into becoming debt-free as fast as possible.

“Do whatever it takes, from making your own lunch for work and not buying anything new except food and other absolute necessities, to selling your second car and any other extraneous belongings, and do it soon, before other people are also all trying to sell things and prices take a tumble.

“You want to get ahead of the curve on this, and should never feel embarrassed about re-evaluating every item in your budget and adopting an extremely frugal lifestyle when all your friends and family are still spending. Soon enough everyone else will be in the same boat out of necessity rather than choice, and they will probably be wishing they had been smart enough to take action when you did.”

Risk of job loss

Fourth, if you have a hobby or a “weekend business” that has been making you some extra cash, you should really nurture it now and try to find ways to grow your customer base and income from this source.

“Job loss is a real risk in a declining economy and you need to face up to this and think about having an alternative source of income if it should happen to you,” says Everitt. “So if you or your partner already has a small business growing things, making things or fixing things, now is the time to take it seriously and put time and effort into it – especially if you are able to offer your products or services at good rates to others who are also trying to save money.

“If you can, you should also consider taking your home business, or part of it, online so that you can sell your products or services to people in parts of the world where the economy is doing better. There are also many websites offering freelance work to people with specific skills, and it is worth considering these assignments as many are paid for in stronger foreign currencies.

Fifth, as soon as you have paid off your debt, you should stick to your frugal lifestyle and start saving again or investing, as much as you can every month, he says.

“By then, interest rates will have risen and you will be getting a better rate on anything that you can save. Alternatively, the price of anything that you would like to buy, from shares to additional properties, is likely to be lower. And we all know that the real way to make money is to buy low and then sell high when the market turns again.

Avoid panic selling

Sixth, if you are a homeowner, you should not just panic now and immediately put your property on the market without some proper planning, says Everitt.

"Panic selling almost always results in owners losing a large part of the equity in their homes that they have worked very hard to build up. And that will not only restrict their ability to buy another home in the future but is also likely to damage their retirement prospects.

“Consequently if you believe you should sell now rather than risk losing your property as the economic situation gets worse, you should do so in a calm and planned way – and enlist the help of qualified and experienced agent who will give you sound advice on pricing, marketing and timing of your sale.

“In addition, you must be sure to work with an agency group that has global reach as well as a national footprint. Remember, property sales are a function of exposure, so you need to list with the agency that will give your home the best exposure to potential buyers.”
Seventh, if you are renting, you should consider moving somewhere cheaper and /or closer to work, so that you can save on rent or transport costs (or both) and put that money towards paying off your debt and then saving or investing, he says.

“If your intention is to become a homeowner one day, now is a good time to start getting ready. Rising interest rates will boost your deposit savings and slower home price growth will make it easier to afford the home you want – but only if you are in good financial shape and can qualify for a home loan. And getting a loan is going to get harder because the banks are always far more cautious about lending in a tight economy.”

Avoid additional spending

Eighth, Everitt says, you should definitely not take on any additional spending or financial responsibilities at this time.

“On the one hand, you must make sure all your insurance policies and provisions are up to date, and keep up the premium payments. This should be an essential part of your financial ‘survival plan’. But you should not be talked or panicked into paying for any extra cover, ‘special cover’ or ‘gap’ cover at the moment. Nor should you take on any new debt, or to stand surety for anyone else’s debt even if they are a family member or close friend.

“In addition, if you are a homeowner, we don’t believe you should fix your bond rate now. There is always a premium for doing this and the chances are that you will end up paying a higher instalment for many months before the rise in actual interest rates justifies the extra expenditure.

“If you have the spare cash to pay more, just put it straight into your bond, lower the capital portion and avoid the effect of higher rates that way.”

Ninth, if you do lose your job, you should not let it damage your self-worth, health, or well-being, he says.

“You should remember that you are not alone, and that being retrenched is no reflection on your abilities, skills or personality. Once again, being despondent is only going to make things worse, so you should immediately start taking steps to remedy the situation.

“Update your CV, post it on the employment sites on the internet and apply directly for positions you see advertised. Work with recruitment companies who might be able to help you, and do not be averse to taking a part-time or lower-paid position until you find something more suitable.

“Be open to relocating if necessary and also think seriously about starting or building up your own business so that you will be less at the mercy of the economy in future.”