How to Survive a Financial Disaster

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Introduction

Have you recently found yourself in a financial disaster? Are you wondering how to climb out of this and where in the world to start? In light of recent years events, it is very likely that you or someone you know has found themselves in a financial disaster. In 2020, the stock market plunged from over 29,000 in February to just under 19,000 at its lowest in March. The events from the pandemic left many people suffering financially. And if the financial crisis wasn't enough to take you down, many people had already found their way to financial disaster through more traditional routes like divorce, overspending, medical bills, or bankruptcy. As a result, more people than ever face serious financial difficulty today.

These are uncertain times and as difficult as it can be to bounce back from adversity, the alternative is to let adversity take you down. Even people who are well-prepared can encounter misfortunes that ruin their finances. If you do, remember that this is not the end. Instead, it is the beginning of something new. There are steps you can take if you are in this financial situation and are desperately wondering where to start.

Step 1: Accept your situation with a positive mindset

Putting your financial disaster into proper perspective is the first step toward overcoming it. The starting point for financial recovery is to stop wallowing in your misery and accept reality. Yes, it's devastating. But no matter what put you there, it's important to remember that, what's done is done. Resisting what's already a fact is futile, so don't waste your energy.

So, accept the setback, let go of it, and commit to forward movement. Not because it's the right thing to do, but because it's the best way to help yourself. As long as you waste your energy wallowing in your misery, you'll have that much less energy to dedicate to solving the very real challenges you will face to move forward in life. If our focus is entirely outward, we doom ourselves to repeated failures.

Just remember to avoid making it worse by not falling for promises of credit repair or quick fixes. Most of them are scams, and they collect a lot of money from people who absolutely cannot afford it. Instead of falling into that trap, get help from financial institutions that offer counseling as a member service or from religious and service organizations, which often also have personal finance programs.

Step 2: Evaluate your current situation

The second step to financial recovery is to take inventory of your current situation. You need to evaluate what resources you have, and what liabilities you face, so that you can develop a come-back plan. In other words, you have to know where you're at now before you can develop a realistic plan to get where you want to go in the future.

To assess your situation, ask yourself the following questions:

- What are your remaining assets?
- How much income do you bring in each month?
- How much money do you owe?
- How much do you spend?
- Are there any long term implications to the financial disaster that must be included in your recovery plan, such as alimony, health issues, I.R.S. liens?

You want to know everything that will affect your financial recovery plan so you’re ready for the next step. Learning precisely where you stand in a crisis is painful. But there’s also relief in knowing what you’re up against. So…….List all the bills you HAVE to pay — rent or mortgage, utilities, insurance, groceries, car payment, gas and whatever else you need to cover to keep going. Add them up. This is the basic amount you need each month. Put your wants and uncritical bills aside for the moment.

Keeping a roof over your head while finding a way to manage the debt can be tricky but it’s not impossible. So if you’re in danger of losing your home or the burden of carrying your mortgage is overwhelming, that should be one of your first considerations when working your way out of a financial black hole.

Step 3: Define your goal

The third step to financial recovery is to define your objective or goal. Now that you have determined where you are financially, you must determine where you want to go financially. Setting your end destination is the same thing as setting a goal.

Use the “S.M.A.R.T.” goal setting system below as a guide:

- **S**pecific: There must be a clear and definable end result. For example, “I want to make more money” is too vague and general, but, “I want to have $10,000 per month residual income after taxes by January 5th, 2017” is specific and points you in a clear direction.
- **M**easurable: You must have some way to measure your progress toward the goal. In the example above, the measurement is dollars of residual income per month. I also encourage you to add interim goals along the way to break big goals into more realistic chunks. For example, how much residual income should you have one year from now? Three years? Five years?
- **A**ttainable: There’s a fine balance between setting a goal that stretches your ability while still remaining within reach. If you set a goal that’s too easy, then you're not challenging yourself. If you make it too hard, then you're setting yourself up for failure. A properly designed goal achieves that razor-edge balance that stretches your comfort zone without being out of reach.
- **R**ealistic: If you're deep in credit card debt and filing for bankruptcy, it probably isn't realistic to set a goal of becoming a millionaire in 12 months. Enough said?
- **T**imely: A goal without a deadline is just wishful thinking. You may want $10,000 per month residual income, but unless you include a date for this to occur by, it doesn’t qualify as a smart goal. It’s just wishful thinking. Give yourself a deadline.

Step 4: Develop your plan

Now that you have your goal for financial recovery and you've assessed where you're at today, the next step is to develop a plan that bridges the gap between where you are now and where you want to be. It's important to note you must balance offensive and defensive strategy at this point to keep the process fun and fulfilling. For example, one mistake I often see people make when paying down debt is to do nothing but pay down debt. The problem is that's not very fun or very rewarding for most people. One solution is to balance paying down debt with adding in a little tax deferred retirement savings or other assets. The reason is to experience some emotional satisfaction so you feel rewarded by the asset growth, which increases your odds of staying with process long-term. Our emotions are part of the process and must be honored.

It is very important to create a budget. Brighter futures hinge on what we do today. One important strategy for avoiding financial disaster is to have money put aside for those proverbial rainy days, you might be asking….How do I save when I'm still struggling? The truth is a financial disaster can have the positive side effect of jump-starting your budget. The hardest part about being on a budget is being realistic. When budgeting, build in a savings in order to create a financial cushion.

Step 5: Take action

The fifth step – taking action – which may be the most important step, might sound obvious, but for some reason, it eludes many people in practice. A plan for financial recovery is nothing more than wishful thinking until it's converted into action. Nothing happens until you take action. Action is the fuel that converts goals into tangible results. A lot of people dream about improving their financial situation, but few take consistent action, and that makes all the difference. The ability to consistently and persistently direct meaningful action toward achieving a goal is what separates successful people from those who are not.

Step 6: Correct and Adjust

As you take action, the one result you can be certain of is you'll learn from your experience – and mistakes. You'll improve your skills and become more knowledgeable as you take action. That's why you should never try to perfect your plan from the beginning. Instead, just get started with a reasonably intelligent approach and correct course as you learn more. The wise goal achiever knows that perfection is impossible, but correction is desirable; therefore, he just gets started as best he can. Then, he adjusts along the way to achieve his goal more quickly and efficiently.

Seldom will your first plan be your best plan, so don't waste the effort trying. Starting immediately is more important because you'll have plenty of time to correct course later.   Perfection is impossible – correction is desirable.

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