What is a recession and how do I invest during one?

Maybe you've heard rumors that the U.S. economy is headed for a recession. But what exactly is a recession? And how should you invest during one? Read on to learn about this common, albeit unsettling, period of economic contraction.

What is a recession?

A recession is defined as two consecutive quarters of negative economic growth as measured by the country's gross domestic product (GDP).

How long does it last?

It usually lasts between 6 to 18 months.

Where are we now?

The U.S. markets are down about 15% since their peak in October of 2007. Interest rates are low and the Fed Funds rate (the rate at which banks borrow money) was recently reduced, in an effort to boost the economy.

The increase in borrowing money results in more money flowing into the market and a stronger economy and perception in the overall marketplace. It does take some time though for this to occur. Unemployment is below 5%, which is lower than its historical average. The perception among many investors is that of uncertainty, which leads or adds to a declining market.

What should you do?

The best approach for any investor is diversification. Because a recession is based on previous data, it is often said that by the time a recession is confirmed, it is already over. A successful investor is one who remains diversified over the life of their 401(k)! Consider today an excellent opportunity to evaluate how you are invested. Make changes to your portfolio based on a long-term approach, not the short-term fluctuations of the market.