CWR
Financial Services, LLC

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This month we will address the need to create & build up a personal finance emergency fund.

As we progress through life, the thing that strikes us most prominently are the uncertainties that arise through our lifetime that we fail to specifically plan for. These uncertainties often catch us completely unaware and quite often arise at times when we can least afford to address them with our regular monthly cash flow provisions. Unless we have created and built up a personal finance emergency fund to meet the surprises that life sometimes brings us, we may find ourselves having to go deeply into debt to address the emergency that arises, oftentimes requiring years of additional interest and principal payments to recover from the unexpected events.

Some of the surprises that we may encounter in life might include health problems, marital problems, loss of a job, accidents, mechanical breakdowns, residential repairs, law suits, unexpected taxes, unexpected pregnancies, untimely deaths, etc. While some of these may be minor in comparison and can rather quickly be recovered from, others may in fact be financially devastating if we have not set aside sufficient emergency reserves to cover their financial impact.

That is why creating and building up a personal finance emergency fund should be our first priority when analyzing how to employ our monthly disposable income. The rule of thumb for the amount needed in our emergency fund is three to six months of income needed to meet our monthly expenses. For those whose jobs are sufficiently secure and who have sufficient insurance to cover unexpected health and accident emergencies, three months salary should be sufficient. However, for those whose employment is tentative and who have little to no health or accident insurance, then the minimum reserve of six months salary would be needed to adequately protect yourself.

It is advisable to trim whatever expenses you can and save as much as you can monthly until your personal finance emergency fund is fully funded. Since this fund needs to be liquid and secure it is not advisable to invest these funds into equities, but rather, to invest your emergency fund into the highest yielding FDIC insured savings vehicle available.

A bank passbook savings account is not recommended because banks simply do pay enough interest on passbook savings accounts to keep up with the eroding effects of inflation.

With the recent rise in short term interest rates, FDIC insured money market funds and bank Certificates of Deposit seem to be the best way to go these days to insure the greatest return with little to no risk of loss of principal.

Several On-Line FDIC insured Money Market Savings Accounts require little to no minimum deposits and no monthly maintenance fees and offer some of the best rates available to day.

Some the best ones are:

a. HSBC Bank Money Market -- currently paying 5.05% interest
b. Capital One High Yield Money Market -- currently paying 5.0% interest
c. Citibank Money Market -- currently paying 5.0% interest

Bank Certificate of Deposits are paying slightly higher rates but your money is also tied down to various deposit periods, such as 30 days, 60 days, 90 days, 180 days, 12 months, etc and withdrawals before the deposit period is up can require substantial penalties.

Your goal should be to research the best savings vehicle possible that will help you in fully funding your personal finance emergency fund as soon as possible and can continue to grow at a sufficient rate to negate the eroding effects inflation would have on those funds in the future.

Once you have your personal finance emergency fund fully funded, then you will be able to consider additional financial goals such as college fund preparation, retirement preparation, and other large future expense items.

Til next time,

Charlie