

Searching for a clear path in our journey for financial security

Unless you are born into a family of massive wealth which is handed down from generation to generation, life for you is like it is for most of us---a life of searching for a clear path for financial security. As you, no doubt, have learned by now, that search can be a challenging endeavor. Partly because the rules on the playing field are constantly being changed and partly because of the uncertainty of life itself.

However, to understand how to establish a clear path to financial security, we must ask the question: What is Financial Security?

To some financial security may mean having \$10 million dollars in the bank.....to others it may mean having \$100 million.....and yet, to others it may simply mean just being able to pay their monthly expenses. Regardless of how any one individual may define the term, what is clear is that financial security is a goal that we all clearly go through life trying to obtain.

I think that the bottom line of what most people mean when they think of financial security is achieving that point in life in which you have Financial Peace of Mind.....That place where regardless of what life throws at you, you are financially positioned to be able to deal with the challenge.

The events of this past year shook most of us to realize that catastrophic events can happen to all of us at some point in our lives. They also caused us to re-evaluate our current position and to possibly re-design our game plan to try to achieve that elusive goal of personal financial security.

While none of us ever enjoys experiencing those difficult periods that we encounter in life.....the old adage that **BEHIND EVERY DARK CLOUD LIES A SILVER LINING**....reminds us that something good can often times come out of some of the difficulties we face in life.

In terms of financial security, the events of the past year caused most of us to carefully scrutinize our investments and our spending habits. The realization that events can shatter our sense of financial security at any given time helps us to take more personal responsibility for our financial well being by challenging the investment rules that we have been guided by in the past.

For example, most financial planning guidelines always indicated that we should maintain from three to six months of our salary in an emergency fund to cover us during times of unexpected events like the loss of a job, a medical emergency, etc. With current unemployment rates approaching 10%, tremendous slowdowns in most business profits, potential increases in taxes and higher prices due to nearly certain higher inflation suggests that perhaps we should put back even more to help offset additional uncertain emergencies in the future.

The question then becomes:

How much emergency fund do I need and what do I do until I obtain that number?

Unfortunately there is no clear cut answer to the question of how much emergency fund is enough during these uncertain times. Much would depend upon your circumstances. Are you just starting out in the business world or are you nearing retirement time? Do you have some major expenditures facing you in the future, i.e. college expenses, increasing the size of your family, wedding expenses, etc? How secure is your employment? Are you in an industry that has been hard hit by the recession? Suffice it to say that there is no single number appropriate for every situation. However, as we look forward to more uncertain days and months ahead I think that it is clear that the old model of three to six months of living expenses certainly needs to be revised. As a minimum I would recommend at least six months of living expenses in a secure, stable emergency fund that can be readily accessed if an emergency arises.

If you don't have the resources to set aside that amount immediately, there are several options that you may be able to choose to provide the cushion you would need until you can build up that amount. Please know that these are not substitutions to establishing an appropriate emergency fund, but, merely a bridge until you can build up enough cash in your actual fund.

1. If you own a home and you have equity in that home, establish a home equity line of credit with your bank sufficient to cover you in emergencies. A line of credit is different from a loan in that interest does not accrue until you actually begin withdrawing money. This line of credit should be earmarked specifically for emergencies.
2. Rebalance your IRA or 401(K) to put an amount sufficient to cover you in an emergency into a fixed income program of the fund you are invested in. While it is not normally advisable to withdraw money from your IRA or 401(K) to deal with current problems, if all else fails you may be left with little choice but to tap into any reserves that you have to cover the immediate needs of an emergency.
3. Review your current income and expenses, determine ways to reduce daily or monthly expenses and set aside that savings into your emergency fund.
4. Take a part time job specifically to acquire cash to put into your emergency fund. The time to take action is before an emergency arises. In the words of Ben Franklin **AN OUNCE OF PREVENTION IS WORTH A POUND OF CURE.**
5. Review your personal assets to determine if there are things that you own that you no longer use. Have a garage sale, sell them on EBAY or place them with a consignment store and put the proceeds into your emergency fund.
6. Think through other options that may be available to you. Try to establish a plan while you can logically and unemotionally analyze the long term consequences of your actions. Remember, avoid at all costs, making financial decisions during times of duress and high stress.

Clearly the starting point of any journey to find financial security is to establish a sufficiently funded emergency fund. One thing that you learn as you progress through this life is that life itself is full of uncertainties. Financial security means having financial peace of mind; to achieve this point in life almost always involves sacrificing some immediate pleasures to prevent even greater hardship should one of life's financial emergencies befall you. I liken preparing for one of life's emergencies to an old TV commercial produced by Fram oil filters.....The memorable tag line was **YOU CAN PAY ME NOW OR PAY ME LATER** implying that by replacing your oil filter in a timely manner saves experiencing major engine problems in the future.

While establishing a sufficiently funded emergency fund is not the entire solution to finding financial security it is certainly the building block on which the other essential elements such as proper insurance coverage, sufficient retirement savings, and adequate estate planning are added.

For many of us, this past year was a wakeup call to what financial calamities that life can throw at us. The possibility of our country experiencing such a violent financial shakeup never really crossed most of our minds, catching many of us completely by surprise. Hopefully we can learn from this devastating experience to better equip ourselves to deal with the future emergencies that life may almost certainly bring to us.

Til next time,

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