

## Money Matters

by J. Lynn Davidson, CFP, CLU . Contributing Writer

### Financial holiday recovery

The holidays are over. Like many people, this may be that time of year when you feel the most "tapped out," from spending more money in the weeks leading up to Christmas season than you do most other times of the year. It is also the time when you are most susceptible to financial fallout if a short-term cash emergency should occur.

During this time, it is most important to have extra cash on hand. You might need some cash to pay off extra credit card charges that you rang up during your shopping trips. Or, you may just need it as protection against an unexpected expense that will be harder to pay with your regular income given the higher-than-average expenses you recently generated.

#### When you need it, you need it

The phrase "save it for a rainy day" is almost as old as the concept of money itself. It is not difficult to understand the logic behind the idea of having cash reserves in case of an emergency. These days, too many people wrongly assume that outlets ranging from "payday loan" shops to credit cards to home equity loans can, in effect, serve as an emergency cash reserve.

The problem is that anytime you have to borrow money to pay for an emergency need, the cost of that product or service (a new furnace or paying somebody to have your furnace repaired) is even higher. What's more, too many people find it easy to repay loans with only minimum payments, carrying short-term debt



over an extended period of time, ultimately suffering

finance charges.

A recommended option is to make sure you have money put away in your own "rainy day fund," so you can avoid having to borrow for a sudden emergency.

#### How much is enough?

A general rule of thumb is that you should have enough money in reserve to cover three-to-six months of living expenses. In other words, multiply your current monthly out-of-pocket expenses by at least three and try to have that much money held in reserve.

Is three months really enough for most people? Think about the possible difficulty you will have replacing income in case of illness or disability. Also consider how susceptible you are to having your income interrupted based on the type of job you have. The more stable and reliable your position, the less risk you face of an extended financial shortfall. On the other hand, if you are in a position where a layoff is a greater possibility, or you are self-employed with a less predictable income, a larger cash reserve may be a better option.

This is especially true given the unpredictable nature of today's economy. Any number of factors could create a short-term financial crunch, including:

- Upward adjustments to mortgage payments based on interest rate trends and mortgage "reset" conditions in certain contracts

- Less job stability and challenges finding a replacement position
- The increasing likelihood that you may face out-of-pocket medical expenses

Aside from possible short-term credit crunches, a cash reserve fund can play a critical role in preparing for unexpected circumstances. Whether it be your automobile breaking down, a refrigerator going on the fritz or an unforeseen medical expense. In a sense, it is your own insurance policy to carry you through a difficult time. These days, that could even include finding yourself out of work when you least expect it.

#### How to start saving

Ideally it is recommended to stock away 25 percent of your pay each month. If you achieve this, you would have three months worth of income set aside in a year. Even if you save a smaller amount, it can help you manage a short-term financial challenge.

As for putting the money to work, a good rule of thumb is to keep it "short and safe." Make sure the money is kept in an account that is fully liquid, so you can access the funds when you need to without paying a penalty for early withdrawal.

Keep in mind that your primary goal is to have the money available when you need it. While it is beneficial to look for a competitive interest rate, you may need it in short order. A financial advisor may help identify savings goals as well. ▀

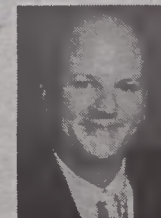
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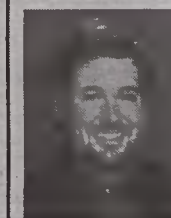
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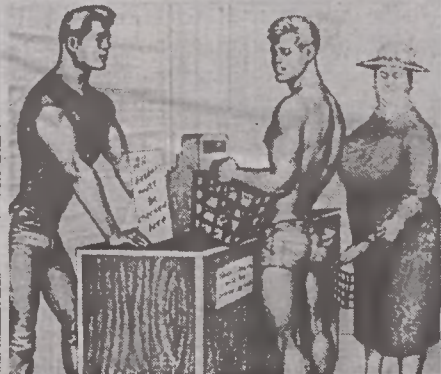
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Sat Jan 12  
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Sat Jan 19  
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Sat Jan 26  
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