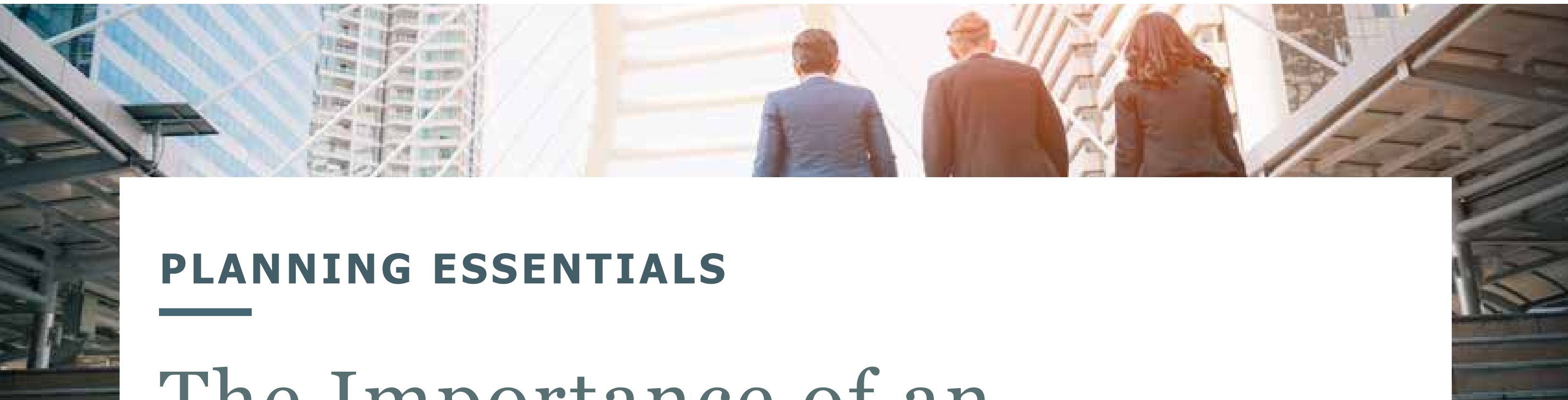

PLANNING ESSENTIALS

The Importance of an Emergency Fund

Most of us are creatures of habit. We find a certain comfort and safety in the predictability of our day-to-day lives. Unfortunately, that also means we tend to avoid thinking about or planning for unexpected and unwelcome changes. But change—sometimes drastic in nature—is inevitable from time to time. Whether it's the sudden loss of a job, a precipitous market drop that impacts your portfolio's ability to generate needed income, or an unplanned but necessary major expenditure, life without a financial "safety net" in the form of an emergency fund is a risky proposition.

KEY TAKEAWAYS:

1.

Every investor should strive to put aside enough cash to cover at least six months of living expenses in the event of an unexpected income disruption or major unplanned expense.

2.

This financial safety net will not only afford you the peace of mind that you're prepared to weather short-term storms, it will protect you from having to liquidate long-term investments at potential fire-sale prices.

3.

Building your emergency fund doesn't need to be difficult. There are a variety of ways to achieve the goal without mortgaging your future.

Now more than ever it's critical that you set aside a formal emergency fund for unexpected expenses and/or a reduction in income. Without one, you could find yourself having to run up high-interest credit card debt, drawing down the home equity you've spent years building, or needing to sell long-term assets (at a time when both the economy and the stock market are slumping).

Creating your safety net

Ideally, you want to set aside enough emergency cash (typically held in a liquid checking, savings, or money market account) to cover at least six months of living expenses. For small business owners or those employed in highly volatile industries and sectors, a 12-month cushion may be more advisable.

As with any goal, the more time you have to build your safety net, the easier the task is to accomplish. The simplest way to get started is to just begin setting aside a fixed amount each month into a separate emergency fund account. To help speed up the process, you might want to also consider depositing all or a portion of each year's tax refund and employment bonus into this account. Because they represent money that falls outside of your normal monthly budget, it's often much easier to save these windfalls without feeling as though you're depriving yourself.

Alternatively, if you own a whole life or universal life insurance policy, you may be able to tap into its built-up cash value as a source of funds in an emergency. A policy's cash value is the amount of money you would receive by surrendering the policy, and functions like an investment account that accumulates tax-deferred interest. Unlike a bank loan, you don't have to pay back a loan against cash value, and withdrawals are tax-free up to the amount of the premiums you have paid. But it's important to understand that interest charged when you borrow against your policy's cash value will gradually reduce the death benefit your loved ones receive.

Lastly, if emergency funds are needed before you have enough time to build an adequate safety net, you may want to consider contacting your mortgage provider and establishing a home equity line of credit. You should only access the funds in the event of a true financial emergency and not for day to day expenses.

Don't wait until it's too late

Preparing for emergencies is a critical part of a thoughtful and comprehensive financial plan. By having sufficient funds set aside for immediate but unexpected cash needs, you'll be in a much better position to weather short-term economic turbulence and market volatility, while remaining on track toward your long-term goals and objectives.

Have specific questions or want additional information on building your emergency fund? Talk to your Eagle Strategies Financial Advisor.

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