

Planning a Cushion for Life's Unexpected Turns

How much should you have in reserves?

provided by Jude Wilson RFC, MBA

The market's recent downturns have many investors questioning just how much money they should have stashed in cash reserves for emergencies. As your financial advisor, I create your asset allocation mix to ensure you have enough money liquid for life's unexpected circumstances. Having cash reserves ensures that you'll be able to meet your immediate expense needs in the case of extreme market volatility and/or unexpected emergencies such as medical expenses or job losses. How much you put aside depends on a variety of factors.

Typically, the rule of thumb is that any funds you will need within the next five years should be kept in cash, in case of a market downturn. However, this rule is typically targeted toward those with longer periods of time before retirement. For these investors, holding an excess of six months cash reserves may mean missed opportunities for money to grow in the stock market. In fact, for investors with long time horizons, investing more when the stock market is down may be a wise idea. Money needed within the next five years, however, should be kept liquid to protect it against downturns. For example, investors saving for

home down payments should consider moving funds to cash as they get closer to purchasing that home.

As you approach retirement, I will rebalance your asset allocation mix to help reduce the level of investment risk and increase the amount of money you keep in cash reserves. Investors who are approaching retirement may consider having at least one to two years worth of basic expenses in cash reserves, in case the market falls just before retirement starts - a circumstance that has become a harsh reality for many as of the past year. Having the cash on hand ensures you won't have to sell investments at the bottom of the market and lock in losses. Selling during market lows can set you back years of saving and investing.

Money set aside for emergency reserves should be kept in short-term holdings such as money market accounts, Treasury Bills or certificates of deposit (CDs), regardless of rumors of losing money held with troubled banks. If your money is held at a bank, FDIC insurance ensures that even if the bank were to shut down--another harsh reality of today's economic environment--the government will

cover up to \$250,000 per titled checking or savings account. If your money is held at a brokerage firm, the Securities Investor Protection Corporation (SIPC) provides \$500,000 of net equity protection, including \$250,000 for claims for cash amounts. Account protection applies when a SIPC member firm fails financially and is unable to meet obligations to se-

curities clients, but it does not protect against losses from the rise or fall in the market value of investments. Visit www.spic.org for more information regarding SIPC.

Call my office today if you would like to discuss your emergency reserves or have other questions about your investment portfolio.

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