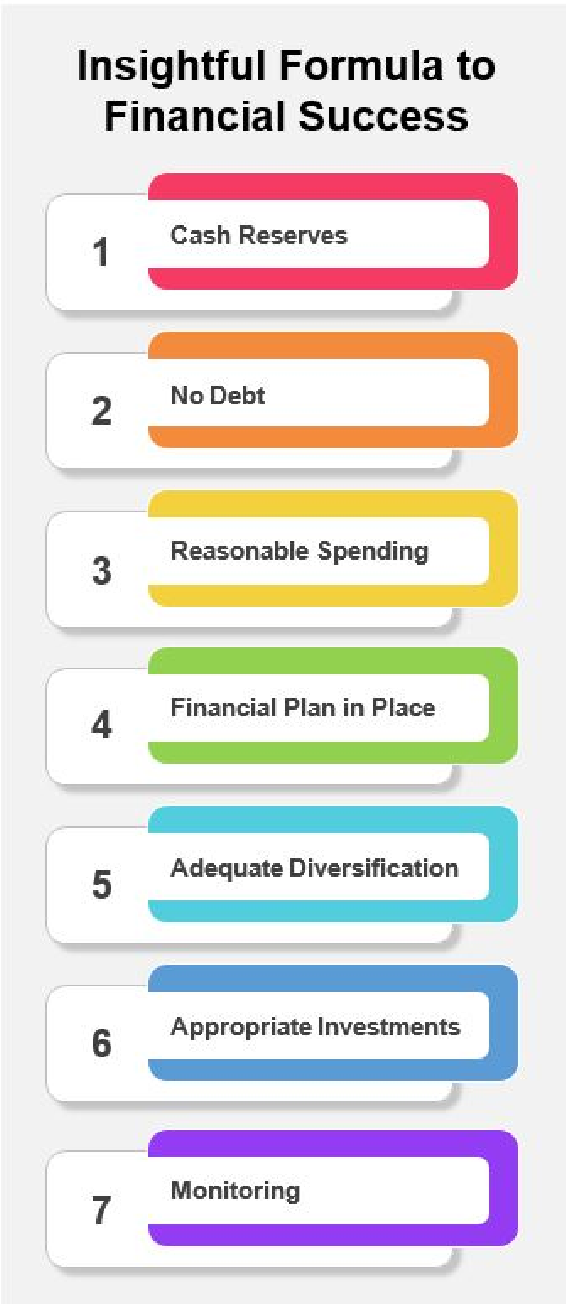
Insightful Formula to Financial Success

Written by: Wanda Delgado



There is a fairly simple formula for financial success that I have been using during my 30+ years in this industry and I'm going to give it to you. In fact, we've put together a graphic (pictured on the left) to show you the secret sauce…

Yep! It's the same few things I talk about at every client meeting, in practically every newsletter, and inevitably at just about every social gathering. Although you may have heard or seen me discuss these topics before, it is always important to have a reminder.

For now, let's start with ***Part 1 - Cash Reserves***.

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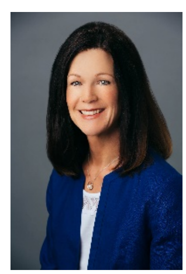


Cash Reserves

Insightful Formula to Financial Success, Part 1

Written by: Wanda Delgado

Owning cash sounds so simple. Its contribution to your financial wellbeing seems so boring and its importance is easy to ignore. Cash money may be intellectually riveting only when it's burning a hole in your pocket, but let's look into how much is wise to own, how it is defined and why I insist that you own some. Carving out or building cash reserves is one of the first building blocks of a solid financial foundation.

Why Have a Reserve? This may be obvious to you, but the reasons for having a cash reserve are not clear to everyone.

Here are the 4 biggest reasons:

Emergencies
Family crises, car repairs, expensive plumbing and roof repairs, etc.

Large Expenditures
Money for a new home, auto, income tax payments, and insurance payments.

Income Buffer
Allows you to wait out declines in temporary portfolio value and allow the long-term growth investments to reach their potential.

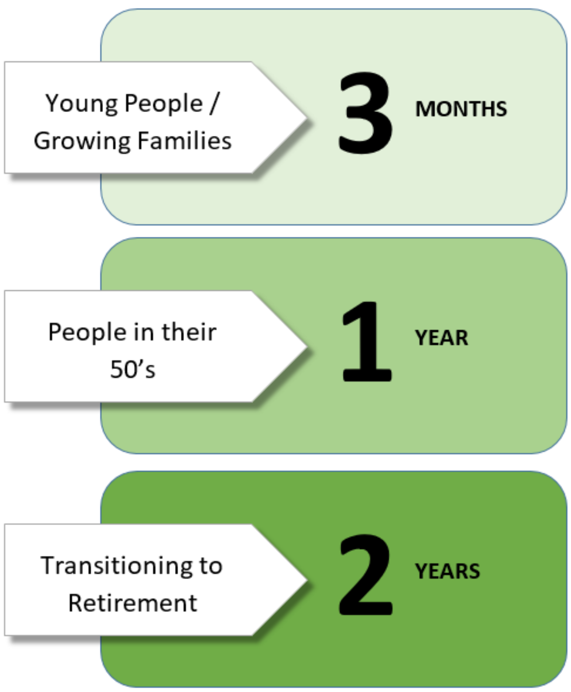
Security Blanket
Knowing that expensive surprises are handled. Quality sleep is a beautiful thing.

How much and when? Individuals who are young and/or have growing families should target an amount of 3 months of basic household expenses for their cash reserves.

If it takes $7,000 to keep the roof over their head with the lights on, transportation moving, food on the table and basic insurance paid – that's the first month target. Notice that internet service, cable TV and other non-essential services are not included. Building up to $21,000 is the goal, getting close is a win.

These cash reserves need to grow as life moves on. By the time folks reach their 50's, cash reserves should approach 1 years' worth of basic living expenses. At $7,000 per month needed, the reserve should be close to $84,000.

Then, when transitioning into full retirement, the ideal is to have 2 years' of basic expenses in cash reserves. In this case of $7,000 per month of basic expenses, the target reserve is $168,000.



When we first work with a client, we make a point of carving out the cash reserve. It is to be held in a safe, interest bearing account. Yes, interest rates on short-term reserves are miserably low, but put up with it! Money needs to be aligned with its purpose – money that is earmarked for cash reserves needs to be accessible and secure.

What counts as cash reserves?

- **Checking, Savings or money market balances.**
- **Certificates of Deposit**
- **Penalty-free cash values in fixed annuities/life insurance**
- **Lottery winnings**
  (Just kidding! Checking to see if you made it this far.)

Many folks do not maintain the target reserves described here, and life works out well. Sizeable pension and social security benefits help create the income buffer and security blanket. One thing is for certain: cash reserves are boring until you need them.

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