Further Faster Financially

A 2019 Federal Reserve survey reported 4 of 10 Americans do not have enough cash to cover an unexpected $400 expense. The COVID-19 pandemic has made life difficult for people who have lost a job and are living from paycheck to paycheck, demonstrating the necessity of setting aside cash in an emergency fund. Individuals with an established emergency fund are better prepared for life's unexpected twists and turns, and have one less thing to worry about in these uncertain times.

An emergency fund is cashed saved for the sole purpose of helping a person maintain his lifestyle through a financial hardship. The accumulation of an emergency fund, along with developing a budget and defining goals, are the building blocks of a personal financial plan.

An emergency fund should cover at the very least 3 months of fixed expenses. Drafting a budget that identifies all cash inflows and outflows is therefore the first step towards establishing an emergency fund. Annual expenses should be broken down into monthly costs and then distinguished between fixed and variable. Fixed expenses are things like property taxes, mortgage/rent, groceries, utilities, loans and health care. Variable expenses are things you can do without in the event income is reduced or eliminated.   In times of financial stress, variable expenses should be questioned: Is that premium cup of coffee indispensable?

An emergency fund should be held at a financial institution; if kept under a mattress it will be too tempting to use for non-emergency occasions.   Do not inter mingle an emergency fund with a regular savings or checking account, and complete access to it at all times via a debit card is imperative.

Setting goals plays an important role on the journey to financial well-being.   Goals pursued diligently lead to improvements in daily habits. Goals should be high enough to motivate but not so taxing that they are impossible to complete. Goals should be disclosed in writing along with the reason for the goal (this puts it in perspective) and reviewed periodically to check progress.   A financial goal might be to save $100 per month. In order to reach that goal, a person could scramble at the end of the month to raise $100. But by saving $3-4 every day for that month, he practices self-discipline. Self-disciplined people do not allow choices to be dictated by feelings or impulses. Self-discipline is the trait most needed to realize goals and lead a financially secure life.

For someone whose personal finances are in good order, the three building blocks can work together to deliver the American dream of home ownership. To have enough saved for the initial down payment would be the goal. The mortgage payment is a budgeted item while the emergency fund is used for major repairs or improvements. Equity in the home is diminished if any of these are not well- funded.

When you fix on a goal and reach it, it gives you a taste of victory, a taste you want to savor again. After a first goal is fulfilled, you should aim for a more demanding objective, a higher rung on the ladder.   A wise man once said "The trouble with not having goals is that you spend your whole life running up and down the field and never score".   By continuously setting and meeting formidable goals, you are not only scoring, but doing so against tougher competition.   You are challenging yourself to rise past the next level, and you will accomplish more than you ever thought possible.