Buck Financial Advisors, LLC

"Helping you Determine your Financial Future"

BFA

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Save For Now and For Later!

Since the recession of 2007 set in the American population has become more interested in savings and safety. Therefore, the savings rate in the country has moved from a negative to a positive percentage. Thousands have been laid off, and there is a desire to put away as much as you can. Therefore, we see a large increase in the cash sitting in "no or low interest" savings accounts.

Should you bulk up your emergency fund or invest for retirement? Does it have to be one or the other? Not necessarily. An emergency fund is the foundation from which you build a sound financial foundation and in my opinion nothing is more important. Typically a financial planner will say you should have three to six months of liquid assets to cover you for an emergency. The basic purpose of an emergency fund is to tide you over if you lose your job. The same emergency fund can cover other financial gaps--unexpected expenses, or the unexpected loss of non-job income.

You should have some cash equal to 1 or 2 months of expenses. Considering the current rate of interest at your local bank, I recommend that you put this cash in an online savings account. The rates are only 1% to 1.5% right now, but this is vastly better than .03% which some banks are paying. Another advantage of the online savings is that it typically takes 3 days to move your money back to your checking account.

Once you have this amount of money you should be better well covered for anything outside of a job loss. For an amount equal to the next 1 or 2 months, either put together a ladder of CD's, or use a short term bond fund. This will usually give you a better return, without much risk of marketability. Don't over look the short term fixed income you have in any taxable brokerage or mutual fund account; or your Roth IRA accounts.

Although I do not recommend dipping into your retirement funds; if it is a choice of adding to your short term savings versus adding to your Roth IRA, do the Roth. If you have 2-4 months of cash, you should be covered for all but the worst situation. Anyone can access their Roth IRA without tax or penalty.

One of the little known facts about the Roth IRA is that you can withdraw your contributions anytime or at any age without penalty. You can contribute today, withdraw tomorrow with no penalty. But, you are limited to your contributions, no earnings can come out. Therefore, if you only have $5,000 to put away and have the 2-4 months in funds mentioned above, put the money in a Roth, and if the worst of all worlds happen you can take those contributions out. Remember to keep the assets in something that will not lose 50% of its value in a market crash. I would suggest more short-term or intermediate term bond funds, as they will not lose as much value if interest rates rise.

Buck Financial Advisors provides independent, commission-free financial advice for people from all walks of life. When you or someone you know needs help, Buck Financial Advisors is there. See www.buckfinancial.com for more information.

Charles Buck CFP®

'The real measure of wealth is how much you would be worth if you lost all your money"
Anonymous

Ask the CFP®

Q. Am I eligible for the Homebuyer Tax Credit?

A. Yes if you meet all the criteria, even if you already own a home. First the timing; you have to have a contract in place by April 1, 2010, and your closing must be complete by July 1, 2010. Second your income; if you are single the credit starts to phase out for a modified AGI of $125,000; $250,000 if you are married. Third your credit amount; if you have not owned a home previously, your credit is 10% of purchase price up to $8,000. Current homeowners looking for a replacement primary residence could also qualify for a credit up to $6,500 under the new "long-time resident" provision. They must have lived in the same principal residence for a five-consecutive year period during the eight-year period ending on the date the replacement home is purchased.

For qualifying purchases, taxpayers have the option of claiming the credit on either their 2009 or 2010 return. This is a highlight of the credit, so check with your tax professional to determine if you are eligible.

To remove your name from our mailing list, please click here. If you have questions comments or seek independent financial advice e-mail Buck Financial advisors at charles@buckfinancial.com or call at 651-330-3585.