PATRICK H. YANKE, CFP® | Financial Planning

Back to the Basics

The new year is a time of new beginnings. Many people write down "New Years Resolutions" to start living their best life — doing the things they know are important for good health and well-being. We can do the same with our finances. We can't change what came before, but we can start today and build a better foundation for the future. Let's get back to the basics.

EMERGENCY FUNDS

Emergency funds are the bedrock of a good financial plan. Sometimes children's stories hold important lessons. The opening minutes of the movie "Up" show what happens without a proper emergency fund … other savings are depleted handling life events. We won't reach the Paradise Falls of retirement if we rely on our retirement accounts to stay afloat.

Generally, single-income families should have 6-12 months of expenses in cash savings to meet emergencies. Joint-income families should have 3-6 months.

ASSET CLASSES

The emergency funds above should be in cash savings. We would like to get the best yield we can on these assets so we may utilize short-term cash instruments like CDs and T-Bills. These funds must be available when needed … and we don't know when emergencies will occur.

Other asset classes are used for intermediate savings and long-term growth. The shorter the time-horizon for investing, the greater the risk that goals will not be met due to market volatility. The longer the timeframe for investing, the greater the need and appetite for growth assets to stay ahead of inflation.

DIVERSIFICATION

There are very few "sure things" in investing. Most things that seem too good to be true probably are. Diversification helps balance the risks of asset classes, sectors, and individual securities to minimize the damage any one area of the economy does to the overall portfolio. It's true that we shouldn't put all our eggs in one basket.

BUDGETING

Living beyond our means generally means we will have a hard time reaching our future financial goals. The best way to build a budget is to start from where we are. Writing down our current expenditures gives us a visible representation of our spending habits. From there, we can adjust to match our true priorities. This process shows us what we need in the present term and what we are able to defer for future needs.

MANAGING DEBTS

Dave Ramsey likes to say that debt is dumb. I would amend that to say that some debt is dumb. The debt we use to buy generally appreciating assets can be very strategic. This approach allows us to leverage our investments to greater advantage. Some may do this with investment portfolios. Most of us do this with our homes. The debt we should avoid is that taken on depreciating assets. Whenever evaluating a loan, always remember that the money you borrow becomes an investment for the bank. You want to have your own investments, not be someone else's.

RETIREMENT

Our working years are spent accumulating assets—we work to support our portfolios. We can't work forever. There comes a time when we will either desire to slow down or our bodies will require it. When that time comes, the equation turns around the other direction—we need our portfolios to work for us. Retirement is a time of life based on cash flow. The income coming in should be equal to or greater than the expenses paying out. It's the uncertainty of longevity that complicates the equation. We want to live our best life for as long as possible and we want our assets to last as long as we do.

ESTATE PLANNING

Death and taxes are certainties of life—but death is the most certain. We will die sooner or later. What will happen to our families and the things we've worked hard to acquire when we pass? When we are young, we want to protect our families against the loss of our future income. Older individuals are concerned with efficiently passing on the wealth they've accumulated. Both stages require planning to ensure our wishes are carried out and our loved ones are provided for.

Take some time in this early part of the new year to dust off the financial planning documents. Make sure they are still relevant to your situation. If they are not, there is work to be done to meet the resolutions of the new year.

Patrick Yanke is a Raleigh-based financial advisor. Opinions expressed here are mine and not necessarily those of Raymond James. The information is not a complete summary or statement of all data necessary for making an investment decision and does not constitute a recommendation. Please consult with appropriate professionals for tax and legal issues. www.yankefinancial.com.