



SAVING FOR A RAINY DAY

By Jacob Ansel

MOST AMERICANS LIVE PAYCHECK

to paycheck so there's hardly a consideration of saving money. A rainy day fund is imperative. What happens if your roof caves in or you get an unexpected medical bill? Having money put aside in advance saves the day. In difficult times having funds to tide a family over during a period of joblessness is more important than ever. It doesn't matter what your income is, saving should be a part of every household budget. With the right strategies, you can begin to put money aside before disaster strikes.

First tip. Set up an online bank account, one without an ATM card or a branch to walk into. Then go online and create an automatic savings plan with withdrawal linked to your checking account. Start with \$100 a month and change it to \$150 after six months. Don't spend this money and don't transfer it back to your checking account. Forget it's there, and let it grow. You'll be surprised to see how fast it compounds. Treat this account like any other financial obligation. Put money in every month.

I recently came up with an idea on how to have an extra million dollars when I retire at 70. It sounded difficult initially, but the more I thought about how easy it is the more I liked the idea. Socking away cash like I outline above takes years and earnings only go as far as the minimal interest paid. But over a 30-year period, the stock market increases three to five times its original investment. So if

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I'm going to guess that you've thought about putting aside a rainy day fund often in the past. That's my first and most important tip. Start it NOW. The more you keep putting it off, the less time your money has to make money.

you invest \$500 a month in a given stock and hold it for 30 years, you'll have a million bucks. My idea is to invest in different stocks every month so I'm not putting all my eggs in one basket; buy a different stock in a different sector each time. The long-term growth rate over 25 years averages 10%.

One of the easiest ways to find money to put toward your rainy day fund is to keep a close eye on where your money is spent. For a couple of months, keep track of every expense, even the small ones. Once you know where your money goes, establish a budget that includes a savings plan. Review the budget every month to determine if your spending is in line with the plan. If you spent less, deposit the excess funds into your rainy day account.

Many employees have a company sponsored 401(k) account which is forced savings and a very smart thing to take advantage of. These funds are not untouchable, which many think. You can borrow 50% of the 401(k) value, up to a max of \$50,000. Repayment terms are usually over five years at the going rate of interest, which is about 3.75%.

The best thing is that when you repay the loan, the interest and principal goes right back into the 401(k) and continues to build value.

Another option to create rainy day funds is give your cell phone provider, internet provider, utility company, cable operator, and local gardener a call and let them know you're thinking of switching services because you need to rein in expenses. Most of the time, they'll want to keep you as a customer and will offer a lower rate. Let's say you save \$75 a month thanks to the new prices. That's found money; don't spend it. Take it and open up that bank account we talked about earlier.

Separate emergency savings from everyday savings. If you keep your emergency money in a too-accessible place, you might be tempted to tap it for non-emergencies, so open a bank account even if it doesn't deliver much in interest.

Now here's the tip no one ever wants to hear, but is probably the most important. Stop spending money. Period. If you don't spend it, you can save it. Very simple. It's time to go on a spending diet. Avoid buying any non-essentials for a month and save whatever you would have spent. Eating out, shopping, entertainment...cut it all for one month. It might seem extreme, but it's not. Keep tabs on what you can do without and what you can't. Fine-tune this asceticism until you come up with a new norm. Whatever you save goes right into your rainy day fund.

An emergency fund can keep you from financial ruin or disaster. It might help you sleep at night too. Don't leave your fortune to fate, so start that rainy day fund now. □