



faith . discipline . patience

It's good to have a cash buffer just in case your car breaks down and needs fixing, or the hot water heater goes kaput, or maybe a child suddenly has an emergency and you'd like to help. But how much money should you set aside in this buffer? And how do you invest the money?

If you're still working the normal advice is to have enough money in your buffer to cover six months' worth of spending in case you lose your job. But if you feel very comfortable you won't lose your job I think you can focus on a dollar amount of \$10,000 - \$20,000. Self-employed people and sales representatives, however, should be alert to income drops.

If you're retired you don't need to worry about losing social security and you can probably also feel quite certain about pension payments and most forms of annuity payments. Further, I think it's reasonable to count on interest payments and most of stock dividends.

Then, after this, figure out how much you spend beyond these fairly safe income sources per month and multiply by six.

Once you've figured out how much money you want to set aside in a buffer it's time to invest the money. Don't think of this as potential growth money, leave stocks alone. Instead, focus on safety of principal using investments like FDIC insured Certificates of Deposits or short-term investments bundled in a money market fund which typically keeps its principal value while paying interest.

Most often you earn more when you buy a 1-year CD compared to a money market fund but right now we're in a period where money market funds pay close to the same (in investment jargon we have a "flat yield curve"). Currently, there are available money market funds paying over 2%, maybe even close to 3% which is similar to 1-year CD rates.

So, at this point I think a money market fund will do the job nicely for your buffer. Then, be disciplined and don't invade the buffer for non-emergency purchases.

Good luck.

*Generally, CDs may not be withdrawn prior to maturity. CDs are FDIC insured up to \$250,000 per depositor per insured depository institution for each account ownership category. CDs may be issued by out of state institutions.

*An investment in any of the money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at one dollar per share, it is possible to lose money by investing in the fund.

Jorgen Vik, CFP® CAP®
CERTIFIED FINANCIAL PLANNER™
Partner
SKV Group, LLC

CAR-0319-01810

1405 Rolkin Ct., Suite 202
Charlottesville, VA 22911
toll free 844.391.3610
tel 434.328.8040
fax 434.234.3789
www.skvgrp.net