



of San Diego

HOME

PLANNER RESOURCES

PROTECT YOUR HOUSEHOLD FINANCES WITH DEFENSE

Football is in the air, and so are cries of Defense! Defense! Like a football team, personal money management involves an offense and a defense. When the offense is struggling, the defense is called on to step in and keep the financial game close until the offense can regain its momentum.

In these financially tough times, the defense is being called upon to step in. Offensively, the stock market is in the doldrums. Try as they might, investors can't seem to run or pass or otherwise move the ball down the field to score. Even those traditionally safe plays-bonds, certificates of deposit and money markets-are gaining little ground.

Another offensive element-employment income-is not faring much better. Wages are barely holding their own, workers are paying more for employer-sponsored health care, bonuses are shrinking or disappearing, and many workers are finding themselves unemployed or underemployed.

Then there are those unforeseen penalties otherwise known as financial setbacks: a major illness, loss of property, a major car or home repair, aging parents who need financial assistance, or a death or divorce in the family. Taxes also can whittle away at the offense, and in some cases, such as when stock options have gone south, taxes can prove disastrous. The following are some defensive players and plays your team needs.

Insurance. While some forms of insurance can be used on the offensive side of the ball-that is, to build savings-most insurance is designed to serve the defensive purpose of providing cash when something goes wrong. We're familiar with some of these types of insurance: life, medical and auto among the most common. But we forget about others. Renters fail to buy renter's insurance to cover loss of property. Workers neglect to buy disability insurance that replaces part of lost wages should they suffer a disability or long-term illness. Long-term care insurance protects nest eggs we've diligently built over the years from being decimated by the high cost of long-term care.

Emergency fund. By stashing three to six month's worth of bare-bones living expenses in a low-risk money market fund or bank savings account, we can better weather financial setbacks such as the loss of a job or an unexpected household repair that might otherwise force us to borrow money or sell investments we don't want to sell right now.

Diversify your portfolio. Many investors agonizingly learned that they'd left this defensive strategy out of their game plan. During the booming nineties, many investors kept throwing deep to the end zone for the quick score by overloading on their company stock or tech stocks. But they found their passing offense stymied by a long, deep bear market and they had nothing to fall back on. In some ways, a diversified portfolio plays offense and defense: it not only reduces the impact of market setbacks, it can

actually return better, on average, than a one-dimensional investing plan.

Save more. Typically this might be considered part of the offense. But personal savings declined in many households during the boom years because the double-digit returns were doing all the "saving" for them. With the market on the decline, families can compensate for some of that loss by increasing savings as a percentage of their income in order to reach such goals as retirement and college education.

Budget. While a budget is a useful tool at any time, it's especially useful in tough times. The tighter the dollars, the more important it is that you get the most bang out of every buck. For example, to bump up savings, you need to find ways to reduce expenses somewhere else in your budget.

Pay off excessive debts. This isn't sexy like investing, but when market returns are poor, often the best return on your money is to pay off excessive debt. For example, paying off the balance on a card that charges 15 percent in finance charges is a better return on your money than putting that money into a money market. This defensive strategy, however, assumes you won't turn around and run up your credit card again.

Estate plan. Properly crafted wills, living wills, powers of attorney, trusts and other estate planning techniques help protect accumulated financial assets from being lost to mismanagement, taxes and expenses.

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