

Rodger on Retirement

Access to cash without pain

For over 30 years, I have advised retired and soon to be retired clients to maintain *robust cash reserves* for unforeseen circumstances. Classic, financial planning wisdom teaches us to hold six months' worth of living expenses in low-risk, liquid investments that can be accessed in emergencies. These include savings, checking, money markets and short-term bond funds. Emergencies may involve sickness, accidents, loss of job, or helping out a family member, to name a few.

During periods of significant market gains, many would argue that their cash reserves would fare better invested in high-tech, small-cap stocks or biotechnology shares. Many investors do not like to see a portion of their assets "doing nothing" when they can be invested for potential gains. During periods of market corrections, many are grateful that those funds are not exposed to risk. In fact, they wish they had more assets in cash.

Over the last six months, I have observed multiple instances where clients and friends alike are very happy to have had robust cash reserves just sitting there! Some of the unforeseen circumstances I have been made aware of are:

- \$7,850 for a new home air conditioning system
- \$3,200 for a new transmission for a child's car
- \$11,250 for a new roof
- \$2,600 to fill in a sinkhole near a home's chimney
- \$8,300 to assist a sibling with a hospital bill
- \$14,600 for dental implants

Let me draw your attention to two of the circumstances above.

First, the \$2,600 spent to fill in a sinkhole, as it was five feet from *my* chimney. One day, I discovered a hole in the ground, large enough to hold five dogs. Granted, it was a cold winter in Maryland, followed by severe rainfall. But a sinkhole next to my home never entered my mind. Had it been closer to the chimney, my bill might have been \$15,000.

Second, the \$14,600 bill to pay for dental implants had to be withdrawn from a traditional IRA account, as this individual did not have a cash reserve at all. To add insult to injury, not only did this person have to undergo a lengthy oral surgery procedure, but also had to pay Uncle Sam a significant tax bill for a premature IRA distribution.

I am certain that your unforeseen circumstance will have different names other than the ones listed above. But the recommendation stands. Be certain that you are never fully invested to the point where you do not have ready access to cash. Placing a portion of your monthly income in that cash reserve would also be an idea worth considering.

Some people jump at the opportunity to buy things when they go on sale. Others may purchase a stock that has dropped by 50% in hopes of securing a bargain. These occurrences may leave you short of cash just when you need it most. Do not succumb to the siren call of the *sale*. Always, always, maintain a robust cash reserve.