YOUR FINANCIAL FUTURE

Your Guide to Life Planning

April 2014

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How to Build an Emergency Fund

Many financial experts recommend setting aside enough money to cover three to six months' worth of expenses in the event of a major financial surprise. That's because a well-funded emergency account has the potential to get you through tough times without the need to spend other savings, such as assets earmarked for retirement and college.

The following steps will help you start saving more right away.

Stick to a Budget

Creating a budget is easier and more important than you may think. Just write down the amount of your household's total monthly after-tax income, and then identify how much money you need to spend every month on necessities such as rent or mortgage payments, taxes, utilities, insurance, and groceries. Next, subtract the latter amount from the former. The difference represents the amount of money available to be set aside for important goals -- such as accumulating emergency savings and saving for retirement - and for treats - such as dining out or going on vacation.

The key is finding some sort of happy balance between the two. If you find yourself spending too much on discretionary items, set a goal to cut down. Don't try to do it all at once. You may find it easier to reduce your non-necessity purchases over time. Try to cut down your spending by 5%-10% per month.

Reduce the Cost of Debt

Every month, millions of Americans spend their hard-earned money on interest and finance charges that arise from carrying personal debt, such as credit card balances. Wherever possible, transfer any high-interest debt to a single, low-rate account. If you own a home, you may be able to pay off your credit card balance with a tax-deductible home equity loan. And needless to say, don't use credit to buy things you can't really afford.

Additionally, whenever you're expecting a tax refund, bonus, or other windfall, be sure to put it to good use. Paying off debt and saving for the future are almost always better strategies than spending without a plan.

Customize Your Savings Plan

Everyone's situation is different. While three to six months is a good starting point, you may need a larger emergency fund if you have a mortgage, children, and/or a non-working spouse.

If you are concerned about the nominal interest rates available via savings accounts or CDs, consider parking some of your funds in other lower-risk investments, such as short-term bond funds.[1] You can also use a Roth IRA as an option in your strategy, as you can withdraw your contributions from it for any reason prior to age 59 1/2. You also may be able to tap any earnings without paying penalties, depending on the circumstances.

Work With a Financial Professional

Managing finances on your own can be difficult. A financial professional can help you determine a budget that will help you live within your means and can help you invest properly to achieve your goals.

[1]CDs are FDIC insured and offer a fixed rate of return if held to maturity. Investing in mutual funds involves risk, including loss of principal.

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