

investmentSDirect

"Individuals who cannot master their emotions are ill-suited to profit from the investment process."
- Benjamin Graham

Are you living too close to the edge

Financial planning, budgeting and other aspects of managing your money can be complicated and frustrating topics.

Let's ask ourselves **four easy questions that can help us put our finances in perspective.**

1. Would one more straw break the camel's back?

What would happen if you got hit with a big unexpected expense?

You've probably heard of the proverbial straw that broke the camel's back.

Your personal financial situation is a lot like that camel. ***You've got ongoing expenses to pay and also need to deal with unexpected expenses.***

If one big unplanned expense can throw your life into disarray; it's time to take a closer look at your lifestyle.

While you may be doing OK today, ***if a single expense is all that stands between you and financial disaster, you're heading for trouble, and you need to take steps to avert it before it arrives.***

2. How many paychecks can you do without?

What would happen if your next paycheck doesn't come in? Will you get evicted from your rented house? Will the bank foreclose your house?

Can you afford to keep the lights on? How long can you afford groceries & provisions?

If you can't live for at least a few months if you suddenly stop collecting income, you've got a serious problem that needs some serious attention.

Most experts list the ***creation of an emergency fund*** as a critical part of a sound financial plan.

Putting ***three to six months' worth of your income in the bank*** so that you have it on hand should you need it is a great way to give yourself some breathing room if your paychecks come to a temporary halt.

3. How's your credit?

Credit-worthiness is another way to gauge your fiscal health.

Can you qualify for a loan? Can you get another credit card?

If yes, chances are you've got at least a little bit of a cushion between yourself and financial ruin.

The ability to get credit is a good thing. But the problems come if you dip into that well too often.

If you've got high balances on your credit cards or can't get a loan or another credit card, chances are that the amount you owe and the amounts you earn and save are out of balance. To correct the situation, you need to reverse the equation by cutting your expenses and/or earning more income and then using those savings to pay off your debt.

4. What about your savings?

If you've got enough cash on hand to address any emergency expenses, can afford to live for half a year without another paycheck and still have the ability to tap some credit, the next thing to consider is the **amount of money that you are able to save and invest**.

Is there anything left from your paycheck after the bills are paid? Do you have a savings account?

The **ability to stay on the positive side of the balance sheet** depends as much on your ability to save as it does on keeping a lid on your spending.

What To Do If You're In Trouble

If you don't know the right answers to the financial checkup questions, you need to take immediate steps to get your financial house in order.

The first step is to **understand your spending**.

Even if you've never touched a calculator or opened a spreadsheet, **setting up a household budget** can help you with this effort, even if you only create the budget as a one-time exercise to help evaluate your cash flow.

The next step is to **protect your credit**.

While living on borrowed money is never a good idea, having the ability to borrow makes all the difference when times get tough.

Keeping your creditworthiness strong is a good way to make sure there will be something left to borrow if you have no other choice.

Once everything else is in order, it's **time to save**.

Start by making contributions to your investment plan and building up your emergency fund.

Increase your savings whenever you get a chance; and before long, your finances will be back in order.
