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**Publication:** Asheville Citizen-Times  
**Day:** MONDAY  
**Section:** W  
**Page:** 5  
**Keyword:** COLUMNS, INVESTING

**Date:** 04/18/2005  
**Edition:** FINAL  
**Sectionname:** WNC Business  
**Byline:** BY WARREN W. WALL

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## **Are your cash reserves for emergencies adequate?**

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Have you worked for years to build up your retirement accounts and other investments but have to use your credit cards to pay for car repairs or family emergencies? Then are you faced with paying off the balances at double-digit interest rates?

As an alternative, you could always sell one of your other investments. But how quickly can it be converted to cash? And if you sell during a down market, you end up taking a loss. Plus that money will no longer be available for future growth and could affect your long-term plans.

Cash reserves are money you set aside for an emergency. If you are still working, cash reserves may replace some of your income if you become unemployed. If you are retired, a cash reserve might help you avoid having to sell investments in order to handle an emergency such as an unexpected medical expense or house repair.

Cash reserves can be kept in low-risk investments such as money market funds, U.S. Treasury bills and certificates of deposit. You might not make a lot on these investments, but the returns should at least keep up with inflation. The money will be there when you need it, and they may help reduce the overall volatility in your investment program.

Also, do not forget about margin — the ability to borrow from yourself. Your securities firm is happy to lend you funds against your portfolio. This can be very handy for short-term needs. Interest rates are currently very modest — about 4.5 percent (depends on how much you borrow and your firm). And, the interest may be deductible. But use this source of cash judiciously as any borrowing entails risk.

The other alternative is an equity credit line. Many banks offer these currently with no upfront costs and rates equal to the prime rate. The interest is most likely deductible and it's as flexible as using a checking account.

Using the preceding option allows you to keep less in low-interest accounts and more money potentially working harder.

How much you should have as a cash reserve depends on your financial and personal situation. If you only have yourself and your cat to worry about, your cash reserve requirement will probably be different than if you are supporting three grandchildren.

How reliable is your income? Is it dependent on stock dividends or real estate rentals, or do you have a pension that is indexed for inflation each year?

Are your cash reserves for emergencies adequate?

## DC4 Report

Think about upcoming expenses. Have you put away money for that special vacation you are planning? Or have you started a fund to replace the old clunker in the driveway?

By Warren Wall

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**Department:** WNC BUSINESS

**Docnumber:** 987181

**Source:** STORY

**Wordcount:** 485

**Docname:** WALL ON THE STREET\_0418

**Pubdate:** 04/18/2005

**Typist:** KATHLEEN DAVIS

*1-Edit*

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**Author:** KATHLEEN DAVIS

**Status:** Sent

**Datatype:** Text