



FINANCIAL FITNESS SERIES 2010!

The 3rd Annual Financial Fitness Series is featured in our weekly bulletins, and also here on our website – www.spcbc.com. Tips will be updated weekly through January 10th through February 28th to help you strengthen your financial future in 2010!

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Where To Find Emergency Cash

Source: Consumer Reports – January 2010

Suppose you've followed our common-sense advice about saving money for a rainy day and have an easy-to-access emergency fund that can cover your expenses for three to six months. What if that rainy day turns out to be a deluge? A medical emergency, a family crisis, or a devastating flood, for example. Where will you get the money to cover the costs of those unexpected events?

Have a strategy in place before a crisis hits so you're ready to respond immediately without taking on more debt. That plan might include the following steps:

1. Cash in CDs first

If you need to get your cash out of a CD before its maturity date, you'll probably pay an early-withdrawal penalty, the amount of which can vary widely among financial institutions. Many banks charge about six months' interest for taking your money out of a one-year CD early. But with interest rates low now, you might not give up too much if you have to pay such a penalty.

2. Sell bonds, then stocks

Bonds are among the simplest and least-expensive investments to part with because--assuming interest rates have not fluctuated wildly since you bought them--you shouldn't have much in the way of capital gains (or losses) to worry about. As a result, the tax consequences of the sale are usually minimal.

To make sure that selling your bonds will not affect your asset allocation too drastically or for too long, financial advisers recommend that you treat it as a loan to yourself to be paid back over a period of, say, two years at half or more of the bond's interest rate.

Stock sales are a bit more complex, but you can derive some tax benefits from selling stocks while you raise the cash to meet your needs. If you're holding shares that are worth less than you paid for them, you can sell them and claim a tax deduction for your losses. Joint filers can write off an unlimited amount of losses to offset their capital gains on other investments, and they can apply an additional \$3,000 a year in losses to offset regular income. Any remaining losses can be carried forward to offset gains or income in future years.

Also consider selling equity mutual funds that are flat, losing money, or generating below-market returns, especially those that are likely to make high capital-gains distributions in late November or December. Those distributions represent the earnings from individual sales of profitable investments that active fund managers made throughout the year. You want to sell the funds before the distribution is made because the fund's share price will drop by the distribution amount and you'll owe taxes on it.

Sell the fund before the distribution date at the higher share price, and use the proceeds from the sale to cover your emergency and, if applicable, take a tax deduction on your loss. If you still like the fund's long-term prospects, you can buy it back after the year-end capital-gains distribution. Just be sure you wait at least 31 days before you repurchase the shares or the Internal Revenue Service will disallow the loss under its "wash-sale" rules.

Final 2 tips next week!