

# Managing financial risk in your personal life



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Managing your individual finances can be very rewarding but is also fraught with potential risks and landmines. Knowing what to watch out for and how to handle these risks when they come up is critical to achieving long-term financial success. Working with professionals — such as accountants, attorneys, financial planners

and insurance experts — can increase your chances of success even more.

Let’s explore some of the key things you can do to put yourself in the strongest financial position possible while giving yourself the best chance to manage and overcome some common risks.

## Build and maintain an emergency fund

You know certain expenses are bound to come up, but you’re not sure when they might happen. Some expenses are unknown and will simply come out of the blue. Perhaps you unexpectedly lose your job or see your hours cut. With the spread of the coronavirus and the resulting government response, many people saw several of these unexpected events happen at once!

One of the first things you should do is to make sure you have enough savings in a safe, liquid account (like a savings or money market account).

This will provide a cushion should an unexpected event occur. Typically, you should have three to six months of expenses saved in this type of account. However, if you have a job in which your income is less predictable or your job stability is uncertain, having a larger emergency fund might be appropriate.

## Have sufficient insurance in place

Insurance is designed to protect against events that could cause financial hardship or even financial ruin if they were to happen. At a minimum, you want to make sure you protect your health, ability to earn income, life and valuable property.

- **Protecting your health:** Health insurance is one of the most important types of insurance to have. Health care expenses in the U.S. continue to outpace the general inflation rate, so it’s important to make sure you can pay for both routine and unexpected health care costs for you and your family. Health insurance is offered many ways. For example, many still get it through their employer, and some buy individual plans either through the Marketplace (Healthcare.gov) or privately through insurers. Older Americans have access to Medicare, and lower-income individuals may qualify for Medicaid. Regardless of where you get your

insurance, it’s important to understand what your policy covers and what your share of the cost will be. If your current coverage doesn’t meet your needs, explore other options that may be available.

- **Protecting your income:** Your ability to earn income is perhaps the most important asset you have to build a stable financial future. Protecting that asset is critical. Disability income insurance is an invaluable tool that will help you do that. Typically, you want to purchase as much of this insurance as you can afford; however, you cannot purchase an unlimited amount





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of disability coverage. The maximum amount of income that can be covered is usually capped at around 60% of income. It is also important to understand the various types of disability coverage that are available. Some policies will pay a benefit if you simply cannot work in your current occupation (referred to as “Own-Occ”). Others may pay only if you cannot work in any job (“Any-Occ”). The more generous the policy terms are, the more expensive the policy will be.

- **Protecting your life:** Life insurance can provide much-needed liquidity and assets to help your heirs maintain their lifestyle in the event of your premature death. There are many types of life insurance policies available (such as term, whole life, universal and variable), and it’s important to understand how each policy type works and which one is most appropriate for you based on your personal circumstances and needs.
- **Protecting your property:** Having enough property and casualty insurance on your assets to protect from unforeseen liabilities is another key aspect of a complete insurance plan. At a minimum, make sure you have enough homeowners’ insurance (or renters’ insurance if you don’t own property), auto insurance and an umbrella policy. An umbrella policy is extra liability insurance that goes beyond the limits of your current home, auto and/or watercraft insurance.

### Manage risk in your portfolio

Investing inherently contains risks. Those risks can be managed by having an asset allocation that aligns to



your time horizon and risk tolerance. Asset allocation should identify an appropriate mix of stocks, bonds and cash to help reduce your portfolio’s volatility, minimize losses and maximize overall gains. The right allocation can be the best defense against market fluctuations.

It’s important to remember that there is no “perfect” investment strategy that will safeguard your portfolio from market volatility *and* provide the growth potential needed to meet your financial goals. Most professional money managers stress the importance of asset allocation because they never know when a market downturn might be coming — but they do know that downturns will occur from time to time. Making sure the portfolio is allocated to some asset classes that provide growth and some asset classes that protect on the downside means that the portfolio is always positioned to weather a market downturn, whenever it may come.

Market timing is next to impossible, and professional money managers know they cannot rely on it as an effective strategy to combat adverse market movements consistently.

While no one could have anticipated that a coronavirus pandemic would be the cause of the next significant market downturn, if your portfolio allocation included asset classes that provide protection on the downside, your portfolio likely performed much better on a relative basis than that of someone who had all stocks.

### Have a strong team behind you

Managing your financial life can be a complicated endeavor. In addition to the previously mentioned items, you must worry about taxes, estate planning, managing debt, cash flow planning and budgeting, and charitable planning, to name a few. Successfully navigating these numerous and complex topics is challenging, to say the least.

Making sure you have a team of professionals behind you who can help navigate these various issues and avoid potential mistakes is very important. Your team should include a financial planner, an accountant, an estate planning attorney and insurance experts. Depending on your individual needs, other professionals (whom your team of experts can help identify) may also be helpful.

Managing financial risks, especially in challenging times like these, is critical to successfully meeting your long-term financial goals. Your odds for successfully navigating these challenges improve dramatically with a team of experts behind you.

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