A Brilliant Way To Make Money With Your Emergency Fund

Scott A. T.: Broadcasting from one Dallas Tower, this is Scott Alan Turner, the financial rockstar, High Priest of the Church of The Financial Truth. Here to help you get out of debt faster, save more money, and retire rich. In the studio with me, producer Katie, who wishes everything could be ordered on Amazon. We are almost there. On the show today I'll be answering your questions about money, business, and life. If there's questions you would like answered on the show, visit goaskscott.com.

Part of a good financial plan and getting your financial house in order ... Everything setup so you can have financial freedom, sleep a little better at night ... Is having an emergency fund. Just some money set aside for the unexpected. The unexpected, even though it's unexpected, it is expected. Something's going to happen someday. Job loss, you're unable to work due to an accident or something, new baby shows up out of nowhere. Hey where did this baby come from? Yeah, we don't know how that happens, but hey, you end up with a new baby so you've got more expenses that you've got to deal with. Lots of things that can come up.

So, it's important to have money set aside for when those things happen. Some people ... They will use credit cards to cover emergencies. If you're in a position of debt right now that might be your emergency fund or your emergency go-to. We're going to charge the new alternator or new tire because we're broke down on the side of the road and needed a tow, to the credit card. That's how you bail yourself out. Some people ... On a show while back, it was actually on the website, we had a debate because they were using HELOC as their source of funds for when the emergency happened.

Generally it's the best idea. We'll say it's a good idea ... Best is open to debate depending on what you believe. The person who used HELOC ... They thought it was the best idea. It was the best for them. Generally, most people keep their emergency fund in cash. In an amount of three to six months on average. That has to be specific to your situation. If you're a single income earner, sales person, cyclical income, maybe you want 12 months. If you're a single person fresh out of college, you've got all your debts and loans paid off, maybe you just want 3 months. You don't have a car payment or you don't have a lot of expenses ... You're living at home, you don't need 12 months or whatever.

That money, if you've got it in cash, loses buying power over time. Inflation eats it up ... That sounds more like a rat gnawing at something, maybe a squirrel gnawing it up ... Inflation is going to eat it up at a rate of about 3% a year. It's the rate of inflation. So, a thousand dollars today ... Next year can buy ... A thousand dollars minus 3% ... $970 worth of stuff. Is that right? Yeah. The easiest math is sometimes the hardest. So you can buy less over time. Money loses its buying power. Which means if you've got money sitting in a savings account earning 0%, even 1%, then over time that money is going to be able to cover less and less emergencies. So what do you do?

I heard this thing the other day, and it just made sense. So much sense that it's going to result in a change in how we're managing our emergency fund and our personal finances so I want to pass it on to you because I thought this is a good idea. This is an idea worth sharing. An idea worth knowing. It's another tool, you put it in your arsenal, you can choose to act on it, whatever. It's best thought out with an example with some nice round numbers so you can follow along. Let's say, average salary, 60 grand, because I like round numbers. You want a 3 month emergency fund. You got 60 grand in salary. It's 40 grand after taxes, and 401k, whatever. You divide that by 12. $3300, let's just call it 10 grand, and $3300 would be your take home money. So three months of that ... 10 grand. Let's say 10 grand is what you would want in your 3 month emergency fund if you're making 60 grand a year.

Bank of America ... That's going to earn 0%. Online bank, 1%. Capital One, 7.5% ... And the money's just going to sit there for decades losing buying power like I mentioned. We'll some of the robots betterment is the one I was looking at but don't limit yourself to that. You do whatever you want to do wherever you want to do it. They've got these things where you can have a short-term goal. You set up a short-term goal like an emergency fund and they'll take your money and put it into some stocks and it makes a little bit more than what you get in an online bank.

Now, remember, when you're putting money into stocks you're risking that portion of your money when you need it the most so that's a bad thing. So what do we do to protect ourselves from the bad things? The market dropping? If you're saving for ... Say for house savings, new car, asteroid coming through the roof ... Been known to happen ... A wife's anniversary ring. If you want to save up for that, don't mess with that money. You'd be in big trouble. Whatever it is. So, those are some things you can set up as a goal. Emergencies also. Medical, unemployment, new baby, HVAC system blows up.

If we're looking at a risk in the stock market. Remember, emergency fund. They always say, "cash, cash, cash. You want to have it readily available. Cash, cash, cash. Gotta have it in cash so we can get to it. Gotta have it quick." You don't want it in the stock market, you don't want to risk it because if 50% of ... Or the market tags by 50% and you lose 50% of your emergency fund, then you lose your job. That's the worst possible thing that could happen ... Because it did happen 2008, 2009 it's going to happen again someday, sometime, and that particular case, if your 10 thousand dollar emergency fund became five thousand dollars ... And then, hey, the new baby show's up. That's not a good situation. We need that 10 grand. We need that 10 grand at least because that's what we were planning for.

So, what if instead we dumped it all in the stock market. We put a little bit in bonds, less risky, and a little bit in the stock market so we can make more than 0%, more than 1% ... Not stock market averages because we're really doing different asset allocation but, let's say we put $7,500 in bonds and we put $5,000 in stocks. Now, our emergency savings just got larger. We've got to come up with $12,500, not $10,000 because our risk is if we lose half our money in the stock market ... Half of $5,000. Is $2,500. Even if we do, we still have $10,000 in our emergency fund and we earn a much higher return because we're in the market.

I heard this and the light bulb went off and I thought, this is brilliant. This is brilliant. Where has this been all my emergency fund life? I mean, just with that little change, our money is now keeping pace with inflation. The 3% a year. Making more than 0%. Making more than 1%. Yeah, it's going to take us a little longer to get it if we need it because it's not down at the local credit union. We can't walk in there and yank it out. We've got to sell something wherever we're storing it in our brokerage house and then we've got to wait for the money to transfer so there's a five to eleven day lag. You've got to pay attention to that but it gives you the opportunity for your money to make more money and that's what we're all looking to get at.

We got our emergency fund. It's boring, sits there, doesn't do anything ... Well, now we can put it to workforce. Maybe we'll even get a little bit better than 3% and if we don't touch it, over time it just grows and grows, and we can take advantage of the stock market growth. So the stock portion is going to grow. The bond portion is going to grow as well.

I'm going to walk you through that example again with simple math. I'm just saying 50% of your emergency fund in low-risk bonds, 50% in stocks ... But remember the stock market has the potential to lose half its value so if we do that, then you've got to double the amount of money in your emergency fund that you're putting into stocks so that if it does lose half that value you still have the same amount of money that you wanted in your emergency fund ... But in the good years you're making money. You're also going to be willing to risk that, all right. We could lose that money when we need it the most. When we need it the most. So you've got to have a little iron in your stomach. A little bit because if not risky.

And you can do a blend. You can keep three months in cash, for example, and take three ... Say in your head you've got a six month emergency fund and go about three months in cash where it's handy and then I'm going to take three months of it and I'm going to put that in a blend of stocks and bonds. Maybe it's 50/50. Maybe it's 70/30. Maybe it's 80/20. Whatever you're comfortable with. Maybe it's three months in cash and three months in 100% stocks and you say, I'm happy with that because I've got three months in cash, I've got one and a half to three months in the stock market ... And I say one and a half because, again, what can happen? You can lose half the money and it's going to be worth half as much but over time it's going to grow at a much faster ... Well, anything greater than zero is going to grow at a faster rate as long as you don't pull it out.

If it goes down, you need to use the money, well you can draw down some of the cash first so you don't have to fake the loss right away or if you've had some gains in that stock portion you've set aside maybe you want to take them out, pull them from the stocks and go have a party, have a nice steak, whatever. So there's a bunch of ways that you can slice and dice this to your advantage and make way more than 0%. Way more than 1%. I just think this is a cool idea, wanted to pass it along. It's a way to beat inflation. It's a way to make money on the upside, cover yourself on the downside by ... You've got to bump up your emergency fund to cover those bad times. Give it some thought. Love to know your thoughts on it, what you think about it and we will be right back with your questions.

Jaylenne: I'm a 21 year old, part-time college student and I feel more informed about my finances. Your podcast has been life changing. I'm one of the financial supporters of my little sister. She's almost nine years old. I do not have custody of her. She lives with her dad and a few other relatives on her dad's side. Our mother passed away almost five years ago due to cancer. I'm sort of a mother figure to my little sister. We are very close.

Our mom had a life insurance policy. My sister was not included in it due to my mom's illness. I received a large sum of which I have used for living expenses since I've turned 18 years old and I live with an aunt, lended her a lot of money, paid for everything she wanted. Long story short, that screwed me over.

I didn't budget. I didn't know anything about personal finance and due to guilt trips by my aunt I couldn't deny her any money she asked for. I was able to invest money into mutual funds. I was wondering, what account should I put money in for my eight year old sister to have some savings? I don't want other relatives, her dad, or other people to have access to this money. This is solely for my sister.

A lot of my relatives are unaware I had acquired money a couple years ago but a lot of people know my brother is receiving money. I really don't want to run the risk of having that money taken away from my sister. Currently, the money I have reserved for her is in a money-market savings account under my name with my chequing and other savings account. It is receiving interest but that's really small.

Just letting you know, I'm also working on an emergency fund for myself, saving more in general, and hoping working up to moving out soon.

Scott A. T.: Sorry to hear about your mom and that she left you guys at such a young age. Obviously I haven't been in any tough situation you guys are in ... Still, tough for you with such a younger sister to look after and take care of ... And considering your family's situation as well. Mom was looking after you guys though. She had that life insurance policy in place to take care of you guys a little bit.

We need to keep this money from being spent and it seems like you've got some relatives that are pretty likely to spend it so we need to get it out of their hands as quickly as possible. Away from them. Out of sight, out of mind. Keep them from touching it so that it's going to be there when your eight year old ... Almost nine year old sister is going to turn 18. There's a couple ways you can do that.

There's the cheap way and then there's a way that's going to cost you a little bit more money. One's going to be a little bit inflexible. One's going to be a little bit more flexible. Cheapest way is you set up a 529 college savings plan for your sister. You can set one of those up quickly and easily and you can take some of your money, put it in there, and it will be there for her when she goes to her retirement. You can get a gift up to $14,000 tax free to another individual ... To your sister. So you can take $14,000, stick it in a 529 plan for her and that will grow ... Be available to her until she hits retirement age. Beyond $14,000 you have to pay a gift tax on that. So your choices there are, wait until the following calendar year and contribute the additional nine if you're going to give her $25,000. The other nine thousand dollars waits until next year.

Issue with that is you've got to keep it somewhere, keep your hands off it, keep other people's hands off it until you can donate that part or you can give that ... You can work it so you donate it in another family member's name. Now, with your family's situation that can get kind of tricky because you're going to have to give them the money and then they're going to have to turn around and then donate it into the 529 plan themselves so you run the risk of them not doing that.

With your brothers portion of the life insurance policy, same thing. He can give a gift of $14,000 to this 529 plan and then the other nine, if you both agreed to give 25 ... At least, maybe he can get 14 out of it. It's just going to depend on how much money you can get out of him to set aside for your sister. It may be the case where you take what you can get. If you can get 14 out of him, one pop, and then put that into the 529 plan for your sister ... I mean, may be just happy with that. Going for the full 25 would be a bonus. If you can hang-on to another nine for next year. Or, same thing, he gives it to a relative who then turns around and donates it to your sisters 529 plan. So that's the first thing. That's cheap, easy, low cost.

The more expensive option is you go to an estate planning attorney and they set up a trust. That's going to cost you attorney fees to do that but then, you get that setup, you take your $25,000, you're brother takes his ... Hopefully, $25,000. And then it goes into the trust via the planning attorney and then nobody can touch it. No one can go in there and dip in it because no one has access to it ... And then when your sister turns 18 ... 21 ... 25, whatever age you've got specified in that trust ... She has access to it. That options going to cost a little more but it gives your sister a little bit more flexibility. She can do whatever she wants with the money when she hits that age that the trust pays it out to her.

And then you could also split the difference. You could put some money in the 529 plan. Above and beyond that, it can go into a trust. Trust is not going to have as much money in it and then those attorney fees are going chew up a good portion of it but that is also an option as well.

Keep up the good work. You're doing a good service by taking care of your sister and looking out for her ... And you're going to have to be the good influence on her. You're going to have to be the good influence on the rest of your family to try to get them to ... You know, you've learned this stuff. You're getting a handle on your finances. You're going to have to spearhead the movement at your family and that's a good place to be because you can help out everyone in your circle and you can bring them all together ... And by bringing them all I say, let's all get on this path to financial freedom. Here's what I've learned. Let me share that with you and some of them will get it, some of them won't. Some will take a little bit more time than others but you're doing it so, congratulations.

Thanks for the question. Dave from Seattle, Washington.

Dave: I have some questions about stocks, bonds, dividends. I moved about $110,000 between a 401k rollover and my Roth IRA into Vanguard a few months ago into a mix of their index funds. I just noticed I have about $500 in dividends that have paid out to a settlement fund. I don't remember seeing any dividends in my other funds before moving to Vanguard so I've never considered what they are. Are these part of the percent rate of return for the fund or is this separate? Is this rare or should I expect more of this? I'm planning just to reinvest these dividends now but if I ever wanted to take them out is there any considerations like penalties above taxes that I should know about?

Scott A. T.: Most investment brokerage places investing types of 401k's, retirement accounts, IRA's, regular brokerage accounts ... I don't want to say all because ... Could be missing something. Most of them have what's called a holding account or, in your case, a settlement account which is generally a market fund. It's just a place to hold money. If I invest the money at Vanguard, for instance, I send them a cheque, they take that cheque and it goes into a settlement fund or a holding account unless I've specifically specified an investment that I want to buy as soon as send them that money ... And then it's invested ... Maybe a year later or 10 years down the road I want to sell some of that.

Dividends are treated as ordinary income. They're treated like the money earned in a savings account or the 1% you're earning in chequing account, perhaps. You can withdraw them, spend them, not spend them, reinvest them if it's in a non-taxable account. You're going to pay taxes on dividends that you receive from your investments.

Thanks for the question.

Quick break to pay the bills. You're listening to Scott Alan Turner.

Hey Nation, Scott Alan Turner here. Now for those of you long-time listeners, you know I'm not one of those guys on the radio who promotes every product that shows up on their desk but today I have exciting news to share. We got together as a team and the vote was unanimous. There was just too much money on the table being turned away. So, starting now, we're going to start promoting every product that shows up on my desk beginning with the fine services of Quilt Kitten for all your quilting needs. The fine staff at Quilt Kitten have an affinity for quilts and kittens. Fabrics, patterns, batting, books, sewing supplies, quilt supplies ... Quilts and more. And they just got some new fabric in from mother Russia. Don't stab your own fingers with a needle, let Quilt Kitten do it for you. Me-ow.

Way, way back in episode 5 I had Erin Walker on the show ... I asked him, share that story about when you were in Starbucks and having a really bad day. And he went on to say, yeah, I mean it was a bad day, standing in line at Starbucks and said, man, I just got to do something to make a change, to turn this day around and decided, I'm going to buy the guy behind me a coffee. I'm going to just pay for his coffee ... And he did that and said, yeah, it made my day brighter. He has a very southern accent. I'm not going to try and duplicate that but it cheered him up doing something good for someone else.

We made a trip recently up to New England to visit my family. We're out at the Yankee candle company. Greatest candle company in the world. Ever in Massachusetts ... Highly recommend checking out. Sensory overload. Literally sense as in sense of the candles but ... Smelling all those smells will burn your nose out. Anyway, it was me, Katie, the kids, mother-in-law ... We were out to lunch. We had just arrived there, visiting another touristy place ... Sitting down at a pretty nice restaurant at the Yankee candle company ... We're eating our meal ... My wife made this comment to this other family who was sitting next to us ... It was a husband and wife. They had three young kids themselves. Then we finish up our meal, getting ready to pay the cheque and the waitress over and says, now, your cheque has been paid for. That family that was here paid for it ... And we were all like, what? What? Couldn't believe it. Could not believe it.

This was not a cheap meal. It was not like buying Starbucks or catching the guy behind you at McDonald's, if you go to McDonald's. It was like a $70 meal for five of us to have lunch. That's a good ... Big outlet for somebody and that blew all of us away but it certainly blew me away as well. First time for me that has ever happened and you've got to have financial freedom to do stuff like that. When you make a stranger's day. We never saw them again. They had paid their bill and gone. Don't know who they are. Just a complete act of kindness from a stranger. It made my day but I'll let you know a little secret, I bet it made their day even more.

Nicholas says,

Nicholas: My girlfriend wants to get into her own business with Photography. Can you recommend any books or podcasts that help with the financial end of that? Things like taxes, invoicing, etc.

Scott A. T.: Photography is so fun. You get to spend time with people, families in their ... Some of those most important moments of their lives. Riker seconds the motion. Anytime I'm looking to learn something new that I don't know much about I do a couple things. One is total immersion in it ... That means going out, learning as much as you possibly can in a short period of time and the other component of that is what I call a ... I've heard it called this before, I didn't make it up ... It's called just-in-time learning. Just-in-time learning. So if you know you're going to need to know something nine months from now there is just zero point in trying to learn that information now.

You wait until month eight ... Relatively, depending on what you're trying to learn and then you do that deep-dive, total immersion as opposed to learning it now and then eight months later, well, you've got to go back and relearn everything that you read previously and you're just doubling your efforts. So you get that aspect of just-in-time learning ... All right, I've got such and such a date coming up or I want to work on such and such a thing. I'm going to do total immersion just before I need to know it. Its going to cut down on my time and then I'm going to remember everything that I needed to learn and be able to apply that really quickly.

Couple books, entrepreneurs, small business owners just getting started with the financial component. One is called the Freelancer's Bible. Links to these books will be in the show notes. One's called the Freelancer's Bible. Normally any type of book that has Bible in the title is going to be huge in this particular one. It's almost 500 pages so you're going to find a lot of extra stuff that you may or may not need but you're also going to find a lot of nuggets in there as well. And usually the Bible's are relatively cheap. I mean, I think this one was $15. For 500 pages that's a deal.

Another one from Nolo called, working for yourself lot and taxes for independent contractors, freelancers, and consultants. And as the name implies, it's exactly what you're looking for. Nolo, huge organization, pump out a lot of books on business, personal finance, legal stuff. So that's a go-to guide. Those two, and they're quite large, are going to be enough to get you going.

Outside of that, for the general business aspect of it, you can't not get how to win friends and influence people because you're running a business. You need to know how to win friends and influence people. Deal with customers, deal with relationships to grow the business which will end up making it more profitable, more successful for you.

Another one called ... It's an older one called Influence the Psychology of Persuasion. That book helps with the sales and marketing aspect of the business. Another one, called Global Marketing, which is about Global Marketing. Low, no cost ways to market the business and help grow it without investing a lot. That is an older book. It's still quite popular. It's published in 2007 so it doesn't have a lot of the internet, social media stuff and you have to pick up another book now a days to get that aspect of it.

Photography ... You're going to be huge on Pinterest, Facebook, Instagram to help grow the business and none of those are going to be in a book from 2007. So those are five ... There's a lot more we could get into. There's a lot more information I could show you about but we don't want information overload. There's five books. That's plenty to eat-up your next month of reading, and getting started with this, getting some of that foundation level knowledge.

Thanks Nicholas for the question. Lucas dropped me a line. I believe he's up in Canada if I'm not mistaken. 23 ... $5,000 in debt.

Lucas: Wanted to reduce the stress in his life and of course reduce the dent so I suggested to him, hey pick up some part-time work 24 hours a week because you're young and single you've got the time. Get it knocked out.

Scott A. T.: Well, Lucas listened, took my advice and he's going to get out of debt faster. He's going to be debt-free faster and he's going to have peace in his life and less stress in his life and no debt. Those are the words.

That's it for this episode. I'm your host, Scott Alan Turner, rockstar Katie is my producer. All the links mentioned in the show are up on the show notes. Scottalenturner.com. If you would like your question answered on the show visit goaskscott.com.

Thanks for listening.