Personal Finance
Did you know?

Investing in a Good Life
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Are You Financially Fragile?

My 3-year-old daughter recently became aware of the concept of fragility. While some stuffed animals make for perfect rowdy companions during an exciting game of chase, there are others that are much more delicate and require a gentle approach. With the fragile toys, she is learning the extra care and caution that is required to avoid the inevitable – and highly dramatic – end result of a broken toy. Even more frustrating is when she is following seemingly perfect protocol to guard a breakable toy's well-being and our energetic labrador retriever unexpectedly knocks her down causing the all-too familiar same outcome. It is this second situation that really captures the essence of fragility; even when great care and caution are taken, the capricious nature of life creates unavoidable risks to the delicate things we care about.

While relatively harmless in the world of a toddler's toys, the concept of fragility in an area such as our personal finances is much less benign. In the world of finance, fragility relates to the degree of durability built into one's financial situation. As previously mentioned, the uncertainties of the events that play out in our lives are impossible to fully anticipate and guard against, but some financial houses are built much sturdier than others and are more prepared to handle the occasional shock. When thinking about safe guarding against financial risks, we most commonly focus on the various types of insurance that are designed to manage these risks. It is very appropriate and wise to protect against the catastrophic financial threats posed by death, disability, and extraordinary health-care related costs. But to build a truly durable financial life, one must think beyond these common risks and design a plan to handle a broader range of potential issues.

While risk can never be completely eliminated, we can do our best to give thoughtful consideration to steps we can take to strengthen our financial durability. This is far from an exhaustive list, but below I've identified a combination of some basic and complex strategies most should consider to protect against financial fragility:

Seek to maintain an adequate emergency reserve that gives immediate access to cash. This can take the form of 3-6 months of living expenses held in a savings account, an untapped line of credit with flexible repayment terms, or an allocation to stable, conservative investments within an account with tax-efficient access. This reserve can insulate your longer-term investments against inevitable short-term volatility and protect against forced selling in a bad market.

- continued,

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Brad serves as a Financial Strategist for McKinley Carter Wealth Services with over 10 years of experience in the investment industry.

After obtaining a bachelor's degree in Finance and Economics from James Madison University, Brad earned the designation of Chartered Financial Analyst through the CFA Institute. Brad's academic background and commitment to the highest professional standards uniquely positions him to lead complex investment and wealth management conversations with affluent families. He also serves as the manager of McKinley Carter's Investment Services Council which is tasked with overseeing the design, communication, and implementation of the firm's comprehensive investment programs.

Brad is an active member of the CFA Society of Washington, DC, the Rotary Club of Charleston, and the Charleston Estate Planning Council.

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Avoid excessive concentration of investments in single companies or industries. The same fundamental forces that have led to the undefeated long-term growth trends in the global economy also lead to the inevitable destruction of the individual companies that drive this progress due to fierce global competition. Placing your financial security and livelihood on the prospects of a small set of vulnerable businesses is entirely avoidable in today's investment landscape.

At least annually, spend time thoughtfully examining your assets and income sources as they compare against your intermediate and long-term financial goals and obligations. The only thing guaranteed about the future is that our situations, objectives, and risk profiles will change over time. Quickly identifying imbalances between financial resources and expected expenses is key to minimizing the adjustments eventually needed to get back on track.

Think through current asset titling, beneficiary designations, and estate plan designs to ensure your assets will be managed and distributed to whom, when, and how you would like. Spending a few hours of time and energy to address these issues now can potentially protect against a generation or more of financial problems in the future.

Ensure your family's finances (both big picture and monthly budget) are understood by more than one key person so that death or incapacitation to that person doesn't cause additional breakdowns. This could be as simple as ensuring both spouses are intimately aware of the family's total financial situation or leveraging a key trusted advisor that can provide a succession plan during periods of emotional distress.

The unfortunate reality too many people have experienced firsthand is that a lifetime of smart, responsible financial decisions can be undone by a single – often avoidable – mistake. Our personal finances and the risks we face are often as unique as the values and morals that make us who we are. But no matter your situation, by taking a comprehensive look at the various moving parts of your life and applying proven strategies to manage risk, you can greatly improve your financial durability which will almost certainly be tested at some point. As far as how to manage the chaos of an under-exercised dog and a spirited toddler, thank goodness for my wife!!