

# Shutdown highlights urgent need for ‘Uncertainty Fund’

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INVESTING

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Unlike with a technology start-up, you know you'll never get rich working for the government, but it's about as stable and risk-free a paycheck as you can get. As 800,000 federal employees and 1.2 million contractors can attest, that's a cruel fallacy. We all need to realize *nobody* is immune to a sudden job loss or other income interruption.

Lack of savings is a financial crisis with two primary causes. First, wages haven't kept up with inflation, so covering even basic daily living expenses is a significant challenge for many. Second, our society values instant gratification, so spending and borrowing is both fun and encouraged by billions invested in technology (i.e. one-click shopping) and sophisticated marketing. By contrast, saving is boring and budgeting is an exercise in self-denial.

Whatever the reason, the reality is a vast number of folks lead a paycheck-to-paycheck existence, where they are constantly on the razor's edge, one missed check or unexpected expense from financial ruin.

According to a recent report from the Federal Reserve, **40%** of adults would have to borrow, sell something or not be able to pay if faced with an emergency expense of just **\$400**. Thus, "relatively small, unexpected expenses, such as a car repair or replacing a broken appliance, can be a hardship for many families without savings."

Another study revealed that half of American households stated they could not raise \$2,000 within 30 days in case of emergency, **including nearly a quarter of households making \$100,000 to \$150,000 annually**.

Our financial lives may be more fragile than we realized, so we need a cushion that can turn a potential catastrophe into an annoyance. In short, we all need to establish an "emergency" or "uncertainty" fund.

According to my friend Carl Richards, budgeting is the foundation for reaching your financial goals, but has a serious marketing problem in that "many of us view budgeting as a punishment: a way to hold ourselves back from buying the things we want, a way to feel guilty about paying for the things we need."

Instead, Richards suggests viewing budgeting as a way to **"become very aware of how we're spending money so that we have enough for the things that matter most."** Track every penny you spend for a month or even a week. Make it a daily process. Richards likes the budgeting program at [YouNeedABudget.com](http://YouNeedABudget.com) because it emphasizes manual entry (as does writing on a 3" x 5" index card), which will enable you to differentiate your spending on true needs vs. wants.

A rule of thumb is your emergency/uncertainty fund should be able to cover 3- to 6-months of living expenses. This is a daunting challenge if you're starting from zero, but the budgeting exercise probably identified some spending that can be rerouted to your fund.

Start with a target of \$1000 and you'll get there in a year by saving \$20 each week. Make the savings automatic by having it transferred directly from payroll or your checking account, so you never see or are tempted by it. If you're receiving a tax refund or other extra income, deposit all or a portion into your fund.

In 1939, Warren Buffett's grandfather, Ernest Buffett wrote to his youngest son, Fred, "Over a period of a good many years I have known a great many people who at some time or another have suffered in various ways simply because they did not have ready cash. For a number of years I have made it a point to keep a reserve, should some occasion come up where I would need money quickly, without disturbing the money I have in my business. There have been a couple occasions when I found it very convenient to go to this fund. Thus, I feel that everyone should have a reserve.

"I hope it never happens to you, but the chances are that someday you will need money, and need it badly, and with this thought in view I started a fund (for you). Should the time come when you need part, I would suggest that you use as little as possible, and replace it as soon as possible.

“For your information, I might mention that there has never been a Buffett who ever left a very large estate, but there has never been one that did not leave something. They never spent all they made, but always saved part of what they made, and it has all worked out pretty well.”

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