5 Ways to Fortify Your Finances

The COVID-19 pandemic showed just how quickly a thriving economy and market can take a very sharp turn for the worse. Some have been more directly impacted than others, but the lesson is the same for everyone: fortify your finances for the unexpected worst-case scenario. Here are five steps you can take to do exactly that.

1. Have an emergency fund

If the income tap gets turned off for any reason, you still need to pay your bills. With interest rates over 20%, credit cards are not a good option. That's why an emergency fund is so crucial to financial stability. A good rule of thumb is to set aside enough to cover at least 3–6 months of living expenses. The funds should be held in a safe and accessible account, such as a high-interest savings account.

2. Watch your debt load

There's good debt and bad debt. Try to minimize the bad – like credit card debt and car loans. Taking on too much debt will put undue stress on your finances if things go sideways, so try to limit your elective spending to what you can cover in a situation where your income is temporarily reduced or cut off.

3. Track your spending

If you know what you're spending on, you'll have much more control over your money. Tracking your spending can help you set a budget that works for you and your family. It will also help you identify your needs and wants and build some good spending habits into the future.

4. Renegotiate

A simple phone call could save you hundreds of dollars. Many auto insurance companies provided rebates during the pandemic, so consider calling your provider to see if you qualify. Also contact your internet, cable and cell phone providers to see if they have a better plan for you. And if you live in Ontario, call your hydro company to see if it makes sense to move from time-of-use billing to tiered billing. Each of these steps can add up to considerable savings over the long term.

5. Make sure you have an appropriate asset allocation plan for your investments

If seeing the stock market drop 30% in March kept you awake at night, maybe you're taking too much risk in your portfolio. Be sure to work with your Investment Advisor to ensure you have an appropriate allocation to stocks, bonds and cash. If you have many years remaining in the workforce, take a long-term outlook on your investments. And if you're enjoying your retirement now, be sure to have a "cash wedge" as part of your portfolio. A cash wedge is the part of your retirement savings that's put aside in safe investments to pay for 1–2 years' worth of lifestyle costs.

Economic crises are very difficult – and most often impossible – to foresee. But you can drastically reduce their impact by ensuring your finances always have a clean bill of health. To learn more, speak with one of our advisors today.

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