



Kam's Mortgage Monthly

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How's your financial fitness and strength?

That is the question I saw recently on the cover of a monthly Men's Health magazine, except that I added the financial part. It seems like a very good question and one that we rarely seem to spend much time thinking about. So I thought I would look into it on your behalf. For my part, I am looking into fit and strong, although as I get older, I am beginning to believe that fit works a lot better than strong. It is imperative that I am fit because of both my plans and my responsibility to myself and my family. Unfit wouldn't work very well. Strong is another question. I'm a believer that endurance means a lot, therefore I try to do some form of cardio or another; of course there are times I'm more committed than others. Now to me, strong equals large muscles, and lifting heavy weights. Of course, I'm not sure if that is what they meant in the magazine, because I just briefly skimmed through it and did not read it in depth. But this got me thinking about the importance of financial fitness and strength, what does it mean to be financially strong and healthy anyway?

I guess the first place to begin is to ask yourself, are you fit and strong financially? In order to help you better answer this question, let me explain what I interpret the meaning of this to be. To me, fit means that everything is flowing the way it should. You are earning money, paying your bills and able to maintain your current life style. That doesn't mean strong, however, because keeping up isn't enough in this society as just the everyday cost of living erodes your spending power on a continuous basis. We have so many pressures coming from so many different directions that one must be able to fight off the problems, metaphorically speaking, at almost any time.

In my view, strong means having liquid reserves, period. Having assets doesn't cut it in today's world, because of the difficulties in converting them to cash. Recently we have had a credit crisis to the south of us that defies imagination and has rendered many insolvent, who wouldn't have been that way a year ago and may not be next year. But they are now. Reserves are assets that can be converted to cash, if not there already, in about seven days. Pure and simple; without these you are not financially strong.

[Cont'd on page 2](#)



Newsletter
Highlights

*How's your financial
fitness and strength?
Pages 1&2 &3*

Something
to
Ponder

*Every oar shortens
the journey to the
shore!*

Kam Brar

How's your financial fitness and strength contd...

How much is needed is different for all of us. Although I am not normally a believer in "rules of thumb", in this case, they can be used as a starting point. To be secure, and most likely strong, you should have one year's income in reserves. However, the problem with setting that as a rule is that if you make less than \$20,000 a year, then one year's income probably won't do, and if you are a Fortune Five Hundred C.E.O., \$100 million might be a tad bit of an overkill, but a nice problem to have! Nonetheless, I think you can understand my point. What if putting aside that amount isn't feasible in your situation? Then aim for six month's expenses as your margin of safety. If you end up with one month's expenses, it is at least a start. You don't get 10 inch biceps overnight do you? (Of course if you know how, please send me an e-mail!)

For most of us, our house has been and more than likely will continue to be our bank. I have suggested in the past that one should pull out reserves from their house because otherwise when they need them, they probably won't be able to get at them. Now some of you might think that the answer to all of this is HELOCS, Home Equity Lines of Credit; even though they are a wonderful product, they are not reserves. Many folks unfortunately learned this the hard way to the south of us and found their Helocs frozen by their lender because of a declining real estate market linked directly to the credit crisis. It really didn't matter to lenders what their specific situation was, even in some areas where prices corrected modestly, the lenders weren't taking any chances, they froze them across the board.

There aren't any simple answers to being fit and strong financially, but unless you are that way already, I wouldn't become complacent. Not only are we still in the middle of a credit crisis, but we are beginning to see signs of inflation creeping into the economy. Usually the way to stop inflation is to slow the economy down to the point of recession and the pressure is relieved. But what do you do if you're already in a recession currently and inflation isn't slowing because of energy, the dollar and employment problems? This is a real problem the US Federal Reserve is faced with, where slowing the economy doesn't look like it will be the answer for the US this time.

So what can we learn from all of this? Well, we could sit around and worry about it all, but rather than worry about things we have so little control over, let's look at some ways to add the strength we need. If you own a house and have sufficient equity, pull some of it out and stick it into the bank for reserves. The rewards will exceed the risks at this point. Of course there is a cost for doing this; the best way to deal with it is to mitigate the cost, by putting the money in short term GIC's, high quality money market instruments through reputable institutions, or interest bearing accounts so you are at least earning a bit of interest.

If you own a house without sufficient equity, you might consider refinancing to a shorter amortization loan to begin to build equity. (You of course would only think about this if the new interest rate is significantly lower than your current one. If it isn't, then start paying more toward the principal with your current monthly payment to the extent that you can.)

[Contd. On page 3](#)

How's your financial fitness and strength contd...

Are you a renter? Now is the perfect time to look to buy something you can live in and try to do this with an amortization as short as possible. This will put you on your way to build some equity, protect yourself from inflation and set up some reserves in the future.

Fit and strong are terrific goals as long as you define them for yourself. What works for me probably wouldn't work for you, and that's totally fine. We might not be the same age, and live in different communities, have different ideas, desires and different goals. The one thing that we both need to share, however, is a desire to be fit and strong financially, with at least fit as a starting point, or we might have a real battle on our hands. I certainly hope not! Life flows much better when the pressures of it are reduced and now is the time to slim them down!



Referrals

Your referrals are always welcome, so if you can think of someone who may benefit from my services, please send me an e-mail to kam.brar@vericoselect.com or call me at **250-686-4246**. Never dealt with me, not sure what kind of service you're going to get? [click here](#) to see what some of my clients have to say!

If you have any questions or comments please contact Kam at kam.brar@vericoselect.com or visit www.kamthemortgageman.com