

Emergency Funds and the Coronavirus - Transcript

Tom Mullooly: In episode 184, we talk about reality distortion fields and emergency funds. I think you're going to want to watch this one.

Welcome to the Mullooly Asset Show. Happy St. Patrick's Day. I'm Tom Mullooly. Let's get down to this. We do planning work for our clients. We advise folks on their investments. That's our business. But the first thing we do when we sit down with a new client is, we determine what their expenses are and then we back into an amount that they're going to need as an emergency fund. And we tell folks that they have to keep this sum of money somewhere in a safe place. It could be a separate bank account, it could be a separate money market account, it could be in a short term bond fund. We don't get too picky about that. It needs to be in a separate place. It shouldn't be in the S&P 500.

There's a story going around Twitter. We've all seen it here because we've talked about it, where a father, a dad, mentions on Twitter that he got a phone call from his son over the weekend. Turns out that the son took his emergency money and he put it into the market in his Robinhood account. Now, Robinhood has been crashing for the last couple of days, and the stock market has really not been doing well as well. So I guess that money is not so safe, is it? So this question comes up a lot. People ask us, what can we do with this money? I feel stupid. It's just sitting there. It's not earning anything. It's not doing anything. Look, this money is for an unforeseen emergency. Unforeseen meaning, couldn't have planned that.

Now we're in a situation where people are about to be laid off, or may be laid off already, or there may be out of work temporarily, or even longer. Everyone is going to need an emergency fund. Should it be three months? Should it be six months of expenses? Should it be \$10,000, \$100,000? Your answer is unique, so it's not right to say everyone should have three to six months expenses. That's not how it works. It has to work for your situation.

I want to just bring up a phrase here. Raise your hand if you've heard of the term reality distortion field. I'll give you the way that psychologists describe this. It's basically the situation of, well, it hasn't bitten us before, so we must be okay. Kind of like a virus. In 1967, Apollo 1 spaceship had a fire on the launchpad before it took off. Three astronauts died in the fire. Frank Borman, when he was grilled by Congress about this, Frank Borman, you may recognize that name depending on your age. He later became the chairman of Eastern Airlines, which eventually became the Trump shuttle, by the way. Frank Borman talking about this fire on the launchpad called it a failure of imagination. They just never imagined in all of their planning that something like that would happen. Same thing, 9/11, terror experts said they never imagined that hijackers would fly a jet into the world trade center.

Look, if you take your emergency fund and you put it in the market, I'm sure most people would say, "I would never imagine that the market would drop 25% and now my job is at risk." It's a real problem. Mullooly's by nature, we're optimistic people. That's what we are, but we have to plan pessimistically. We want to be optimistic. We have to prepare for pessimism for problems. We hope for the best outcomes, but we have to plan for the worst. That's our job as advisors.

You need to have that emergency fund and it needs to be set aside before investing other money. People are starting to call us now and they say, "Hey, I got a couple of bucks in the bank. The market's really washed out. Is there something that we can buy that looks pretty good?" Look, if it's your emergency fund, we don't want it. It's there for a reason.

I'll just finish with one last story. Bill Gates, the early days of Microsoft in the late seventies, this might've been 1980, ran into a problem with payroll. He actually wound up borrowing money from his dad to meet payroll. He swore that that situation would never come up again, and pretty soon Microsoft had a year of expenses socked away in the bank. Be careful about that. You got to have an emergency fund socked away and it shouldn't be at risk.

That's enough for episode 184. Thanks again.