

Should You Invest Your Emergency Fund?

Tim Mullooly: In episode 70, we're going to talk about greed and having an emergency fund. Welcome to the Mullooly Asset Show. I'm your host for today, Tim Mullooly. Let's get right into the question for this week. Brendan, what are we going to be talking about today?

Brendan: I have this money in the bank for emergencies, but it's earning nothing, and I see the stock market going up every day. Should I be investing this?

Tim Mullooly: Okay. Good question. We've gotten that a couple times over the last few weeks to a month or so from some people that have come in, and first thing I would say to that person is hats off to them for actually having an emergency fund.

More people than I would like to admit come in here, and they don't have any sort of emergency fund or any sort of savings.

So that's usually where we begin with people, is telling them, "You need to have that emergency fund in place in case something happens."

Your car breaks down or you get in a car accident, God forbid. Something breaks in your house and you need a big amount of money to replace something or get a new roof.

You get sick and you have to pay medical bills. There are always things that come up. Life gets in the way. Things happen.

You need money at the drop of a hat. So the emergency fund is always very, very important.

I know we touch on that a lot in our podcasts and our videos, but it's something that really needs driving home, because a lot of people don't realize that they need it until they need it. And then it's too late.

So what we like to tell people is anywhere from three to six months of expenses is usually a safe, comfortable amount of money to leave in the bank just in case these emergencies happen and you need it.

To answer the person's question about investing this money, I would recommend against doing that for a couple reasons. Like I said before, this is an emergency fund. You're going to need it at the drop of a hat.

You never know when these emergencies are going to happen. That's why it's called an emergency. You can't really plan for it. The only way to plan for it is to have the money already in the bank.

So I would hesitate to invest it also because sure, the market has been going up for the last year or so, and you might feel kind of dumb, while the market's going up percentages every day and your money's sitting in the bank not really earning anything.

But what you're not earning in the stock market you're earning in peace of mind. So that's kind of the return that I like to say on the emergency fund.

And if you were to invest it, you're introducing an amount of risk into that money. Sure, the market's been going up, but as we know with markets, they go up, and they go down.

So if you were to invest that money, you're putting it at risk to potentially lose some of that money in the investment. So just a couple reasons why I would hesitate to invest your emergency fund. Pretty quick answer.

That's all we're going to have for episode 70. Thanks for watching, and we will see you next week on episode 71.