

How to Avoid These 5 Huge Financial Risks

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Sure you might lose money on any given day on a stock or stock mutual fund. What other risks are out there?

Many people are taking much bigger risks than that and may not know it.

1. **Retirees** earning too little or spending too much. Unfortunately, bonds pay very little interest these days and CD rates are next to nothing. If you are retired and spending more than 2% of your nest egg every year you had better think twice before you end up digging into principal. The risk of outliving your money is real and not made any easier when your investments earn little interest or go down in value. Better have a good long-term plan.
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2. No Emergency Fund – Are you living paycheck to paycheck? By that I mean do you spend everything you make and have very little in an "Emergency Fund" should you need cash? What if you get in an accident and need to pay a deductible or you need to replace a furnace that quits working in the middle of February? Not having cash for things like this is a risk you probably shouldn't take.

3. Lost Income – What if you lost your job? Stop and think for a minute what you would have to do in that situation. The loss of income is a much greater potential loss than most stock market related losses. There is also some chance you could lose your income due to becoming disabled. Working

without a parachute (adequate disability income insurance) is also a big risk. For many people, your ability to work is your most valuable asset. Most people are poorly insured if at all for income lost due to a disability.

4. Retired – Got it Made – What if you're retired and have a sizable emergency fund? I'm happy for you. Make sure you cover one huge risk to your nest egg – the potential need for long-term health care. It's a common need and it's not cheap! If needed, those expenses could have a devastating impact on your portfolio potentially costing \$4-7,000 per month or over \$80,000 per year. For retirees that's more risk than owning stocks in their portfolio, and the chance of that loss occurring is over 50% for couples over age 65.

5. House – Another big financial risk is buying a home. Yes, you read that correctly. It's a big ticket purchase that just might be a big loser as an investment, especially when you factor in real estate taxes and the money you sink into maintaining it. Depending on when you sell, you might get less than you put into it when you factor in all the costs. Of course, there are other factors that make buying a home a good idea and the price certainly could be significantly greater when it's time to sell it.

These are some financial risks that many people do not take into consideration. The headlines usually talk about the stock market risk (especially when it's going down), but these other risks are also very real and should be avoided at all costs.

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