

# LADDER YOUR CASH FLOW

## Using CDs to survive tough times

If you've recently lost your job, or you are worried you might soon, take a deep breath. With a little bit of planning you can get through this difficult time with minimal stress while keeping your financial plan intact. The first thing you need to do when facing unemployment is to create a strategy that will provide a steady cash flow while you're looking for a new job and getting back on your feet. There's a simple process that can help with this: it involves purchasing a series of CDs that mature one month apart. This is called laddering cash flows, and it's a good idea to start this process even if you still have your job. Here's how it works:

First, take all the money you currently have saved up (excluding your retirement accounts) and determine how many months you could live off it. Then, purchase a number of CDs that equal the number of months you calculated minus one. Why minus one? You will need cash to live on from today until your first CD matures in one month. Stagger the maturity dates so that each CD matures one month after the previous one.

For example, if you have four months of living expenses saved up you should buy three CDs. The first CD will mature one month from today, the second will mature in two months, and the third will mature in three months. Each month a different CD will mature, and you'll receive enough money to cover your living expenses for that month. Your goal is to get back on your feet and bring stability to your financial plan before the last CD matures.

**How many monthly CDs should you purchase? Buy as many as you can until your savings are exhausted, up to a maximum of twelve.** Once you start, you'll see that laddering CDs provides much needed stability in a time of tremendous uncertainty. First, it forces you to save and reduces your ability to make impulse purchases. In other words, while your money is invested it's not at your fingertips for you to spend on something you may later regret. Second, this strategy provides regular,

steady cash flow for you to live on each month. It will feel like you're still receiving a paycheck, even if you've lost your job—the only difference is you'll be paying yourself instead. Third, you'll earn a higher interest rate through CDs than you would through a checking or savings account, and you'll be taking advantage of compound interest. Although the interest payment may not seem like much at first, the effects of compound interest will start to put real dollars in your pocket and may even keep you in the black a few extra days.

It's best to start this strategy while you still have a job because it will train you to live only off the money provided by the CDs. As you continue to receive a paycheck, replenish your CDs by purchasing a new one each month until you feel your job is secure. Teaching yourself to live only off this money will help you live within your means and survive on less, which is a valuable lesson. You never know when you'll be faced with real unemployment.

**If you've already lost your job and you're starting to ladder CDs, your goal is simple: Land full-time employment before the last one matures.**

Once you find a permanent job you can stop buying monthly CDs and switch to quarterly CDs instead. Quarterly CDs have maturities of three months, six months, nine months, etc., and can serve as your own personal "bailout plan" the next time an emergency strikes. Best of all, quarterly CDs will earn a higher interest rate than the monthly CDs you've been buying, putting even more money in your pocket. *VM*

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