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Emergency Financial Preparations in Post-COVID World: Do We Learn From Our Mistakes?

Our Friends · Friday, July 23rd, 2021

Now that 2020 is over and the threat of COVID-19 seems to be at least partially subdued with the appearance of vaccines — we can start looking at the economic implications of the pandemic. And sure, the macroeconomic effects of this crisis will be studied for years — but there are also some interesting implications to the world of personal finances.

This pandemic has, perhaps more than anything else — shown us that our management of personal finances is far from ideal. Studies on emergency preparation show that plenty of Americans aren't satisfied with how they approach the possibility of an unpredicted crisis when it comes to their financial situation.

So, what can we change about this? Can we learn from some of these mistakes and ensure that we're better prepared for another crisis in the future? All of this is possible — as we'll show by exploring the issue through the lens of both investors, people who want to save up money, and spenders!

Emergencies happen

If you could take away a single lesson from this entire situation, it should be this — even if we don't consider them likely, emergencies happen. And the fact that they're so unlikely and unpredictable is what makes them emergencies in the first place — it's what you don't see coming that puts you at most risk.

Considering this, one of the clearest lessons which we can surmise from 2019 and 2020 is that most people should consider working on an emergency fund more seriously. And sure, there are plenty of people who don't really have the income necessary for saving up a lot of money. However, we believe that most people could manage to save up one month's income over the course of a year or two — and one month's worth of money is enough for a starter-pack emergency fund.

Naturally, having such an emergency fund won't make up for the fact that you've lost a job, for example. It doesn't solve long-term unemployment. However, what it does do is provide a temporary safety net while you figure things out in crises such as COVID-19; sudden economic disruptions that you cannot plan for.

Even if you're eligible for some kind of unemployment benefits, you may have to spend weeks without income while these start coming in. And having this kind of emergency fund will do wonders for helping you tide over until you find a new job or start getting those benefits.

Financial discipline is crucial

Of course, no kind of savings is possible if you don’t learn the many intricacies of steady financial discipline. Indeed, many of us take a lot for granted, enjoying some things that others view as hedonism without even realizing it. And if you want to reap the benefits of frugality, there are certain things that you need to refrain from doing — like eating out constantly and traveling in a way that means staying at expensive hotels. There are plenty of activities that are pretty much excessive indulgences — stopping you from saving money and living moderately.

You don’t have to live this way all the time — but you should still start practicing saving money from time to time if you want to build at least some sort of emergency fund for unexpected situations. You never know when you’re going to experience sudden medical bills, unpredicted caregiving responsibilities, cutbacks, or other forms of reduced income.

And once you absolutely need to think about how you’re going to manage your money, it’s already too late. So, if you want your financial situation to change — you need to start from your own mindset.

Buying bravely

Naturally, saving money isn’t the only way to build up some sort of emergency fund. You could also try to create a stream of passive income — or dividends from smart investments which ensure that you always have some sort of backup to rely on.

Of course, talking about investments in a time when market uncertainty — and indeed, practical life uncertainty — is at an all-time high is not easy. After all, we’ve all faced certain risks that we never thought we would in the past two years. And investing in such dangerous times is basically an action that goes against all of our evolutionary instincts — which is, at the end of the day, something that market behavior is also based on.

When you’re scared, you want to protect what you have — not to invest in something new. And that’s especially true for long-term investing. However, when you examine things more closely — you realize that certain investments could yield incredible gains in uncertain times; which is especially useful when we’re talking about building up an emergency fund.

Expectedly, the entire market was down by a staggering 30% in 2019. And both historically and logically — there’s no better time to start buying stocks. Sure, March of 2019 wasn’t a time when most people considered turning a profit and making long-term investments; depending on where you were back then, it might have seemed like a humanitarian disaster.

But if we were to embrace pure reason for a moment — everything that economics has taught us about bear markets indicates the following: all of them arise for different reasons, but they’ve got one commonality; the fact that they always have an end. Sure, sometimes investing in such murky waters means losing money — but the potential for great returns is there, and it shouldn’t be ignored.

Wrapping Up

When it comes to emergency financial preparations, it's clear that there are plenty of different ways to approach the issue. But it's also just as clear that — regardless of how you want to build up an emergency fund: you're going to have to start thinking about it far enough ahead! We hope that this article was of use to you and that you have learned something new today. Make sure you are staying safe in the se times we are all going through and have a good one, guys!

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