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Everything You Need To Know about Emergency Funds

A Thread ■■

1/ Let's understand the meaning of Emergency Fund, it is a fund that will help you at the time of financial crisis or unplanned scenarios. It is also known as contingency funds.

An Emergency Fund is the first step towards financial freedom.

2/ For example, when the Covid-19 hits many people lose their jobs which results in loss of financial support and people find difficulties buying basic necessities for themselves. So, having emergency funds helps you to sustain the period.

3/ Now the question arises, how to build an Emergency Fund?

An emergency fund cannot be built overnight but it can be done gradually. Firstly, you need to analyse your monthly expenses and then, you need to set aside a particular amount every month.

4/ Say, you have decided to have an emergency fund of ■3 lakhs. In this case, you can set aside ■45000 or ■50000 every month to accumulate the corpus you need. It is fine to even cut down on your investments to build this amount.

5/ How much Emergency Fund is required?

Well, it depends upon your monthly income and expenses, ideally an emergency fund should be at least 6 months of your monthly expenses.

6/ For example, your monthly income is ■1 lakh and your expenditure are ■50000, then you should have ■3-3.5 lakhs of emergency fund.

7/ Lastly, the question arises where to park the emergency fund?

It is the most important criteria of building an emergency fund because managing your money is a very crucial part.

Once you have built your emergency fund, it should be diversified into different channels.

8/ (a) Some portion of your money should be kept in cash because liquidity is very important.

(b) Some portion should be kept in your savings bank account.

(c) A part of your money should be invested in the liquid fund, where your goal is not to chase returns.

9/ If you're wondering how much percentage of money should be invested in different options, well it depends upon the individual choice.

10/ Unpopular Fact - Don't invest your emergency funds in the stock market or mutual funds.

BY : @ShubhamAggarwl

11/ That's it, hope you liked the thread.

We have compiled a complete guide on Basics of Stock Market where you can learn most complex topics in the simplified manner and even a non-finance background person can learn.

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