

How to Handle an Influx of Money

Whether it's an inheritance, a raise or selling assets, an influx of money can be an opportunity to bring you closer to reaching your financial goals, if you plan ahead.

Stay focused

If you've come into a significant sum of money, take time to get over your initial euphoria. For a brief period, put the money in a low-risk, money market or savings account, where you can access it when you're ready. Because of possible tax issues arising from your windfall, consider seeking advice from a legal or tax professional.

Set your priorities

Short term, you may decide to apply a portion of the money to paying off high-interest credit cards, or to creating an emergency fund that's the equivalent of three- to six-months' salary. But an advantage of applying even small additional amounts to long-term financial goals is that your money has the opportunity to grow over time through compounding. This is particularly beneficial when the account is tax-deferred, like your employer-sponsored retirement savings plan.

Reassess your financial strategy

Having more money to invest, even if it's just one percent more than you're already investing, can alter your time horizon, financial goals and risk tolerance. You may want to reach your existing financial goals sooner. You may decide to add to or expand your goals. You may feel more comfortable with a slightly higher level of investment risk. Adjust your asset allocation to reflect any changes.

Make it automatic

Why let more money be temptation to a spending spree? Arrange for automatic contributions to your retirement savings and investment accounts. If possible, increase your retirement savings contributions with each pay raise. Think of it as a way of paying yourself first for lasting results.

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