Planning for the known and the unknown

Long-term planning is essential for survival and the very nature of a long-term plan should include provisions for unknowns. In the military parlance of Donald Rumsfeld (former US Secretary of Defence): “There are known unknowns and there are also unknown unknowns.”

In the first case, we know that at some point an emergency will arise, we just don’t know the when, why or how of it. Similarly, we know that at some point, an event could arise of which we had no inkling at all.

**Financial planning for the known unknowns**

When it comes to your personal financial planning, knowing that we are all likely to experience unplanned financial emergencies, keeping an emergency-savings kitty in a money market account or instant-access, low-risk portfolio makes a great deal of sense. In terms of the amount, we recommend a target of a quarter your annual earnings as appropriate. In addition, risk cover in the form of short-term insurance, medical aid, gap cover, temporary income protection and dread disease cover needs to be in place to help bridge the gap and protect the family against any potential short-term implications.

**Financial planning for the unknown unknowns**

When we don’t know what we don’t know, the best approach in financial planning is to mitigate long-term risk. The way to do this in investment terms is through diversification. As no-one can predict the future accurately, don’t keep all your eggs in one basket. Spread the risk of your financial assets and investments to achieve your desired outcomes in the time period you have available. In addition, putting appropriate life, disability, dread disease and income protection cover in place should safeguard your family against the long-term implications of an unknown occurrence.

A registered financial advisor will help you get your financial plan in place and then help you make sure that you stick to it.