

7 Signs of Financial Peril

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Financial disasters can start small. Sometimes all it takes is one minor setback to cause financial strain to snowball into a full-fledged catastrophe. Before you know it, an avalanche of bad fortune has collapsed all around you. Do recognize any of these signs that you might be living on the edge?

KB Home (NYSE: [KBH](#)), **Countrywide Financial** (NYSE: [CFC](#)), and **Accredited Home Lenders** (Nasdaq: [LEND](#)) because the hot [housing market](#) will make you rich. You enjoy parachute jumping and motorcycle racing on the weekends, with your 12 kids watching from the sidelines. It doesn't occur to you to wonder how you would put food on the table if an accident kept you from working. You've got some newfangled mortgage with a variable interest rate, and you're very happy now that you have extra money to spend because you can opt to send only that [very low minimum payment](#).

Squirring in your seat? Don't panic. With a few simple steps, you can edge away from the cliff that leads to financial calamity. Start building a safety net under you and your family by making sure you're following a few simple rules.

Build a liquid emergency fund. Putting a [small pile of cash](#) aside to cover life's calamities may be the most important thing you do to prevent a financial meltdown. Put the money someplace where it might earn a few dollars of interest, but resist the urge to make big bucks in the stock market. You don't want to subject your safety net to the risks of a [market crash](#).

Don't abuse consumer credit. Go ahead and exercise those credit cards, but make sure you can pay the balance each and every month. Relying on a credit card as your safety net means you'll be digging a financial hole every time disaster strikes that could take months or years to climb out of. If it's your only resource in a serious emergency, you can expect a slow and painful recovery.

Get good debt on good terms. We sometimes need debt for life's major events, like buying a home and going to college. Don't walk into that debt without understanding its terms and your obligations. Make sure it fits your budget and that you're comfortable with your repayment terms.

Save for retirement, and leave it alone. Time counts as your biggest ally when it comes to paying for this gigantic expense - living life without a job. Start saving for this mammoth goal as soon as you can, then leave the money alone. You only hurt yourself by treating your retirement funds as an emergency account.

Get disability insurance. If you can't earn a living, your life could turn into one big financial mess. Protect yourself against some financial costs of sickness or injury with [disability insurance](#), especially if you have dependents who couldn't live without your support.

Learn more about building a financial safety net by reading these Foolish articles:

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