

Is Cash Really King Today?

Over the millennia people with enough cash on hand have enjoyed a flexibility others have not. All of us feel a bit more at ease when the checkbook and savings balances have grown to the point where we have a cushion against unexpected expenses. At even higher levels of cash we can wait for opportune conditions to acquire assets, as Warren Buffet does so very well. Historically, building cash has been beneficial, however conditions have changed a bit.

Paid To Wait

Until the last few years, cash, whether in a deposit or a money market account at a bank, could earn a modest return of say 4-5%. Higher rates occurred during the 1980's and much of the 1990's. In essence you could park your money and be paid a fair amount to wait for an opportunity that was attractive to you. We all know what has happened to the rate the bank (and the market) is willing to pay on the cash you wish to deposit. You know, the money you want to preserve and hope it earns a little something along the way.

Unusually Low Rates

We all know what happened in 2008. An avalanche of poorly underwritten and "securitized" mortgages in the US just about collapsed the entire global financial system. If you haven't watched the movie "The Big Short", you really need to find it on Netflix and watch it. The politicians, Fannie Mae, Freddie Mac, Wall Street, the Rating Agencies and others brought about an excess that is still impacting us today, but I digress.

Breaking The Buck

Something else happened that year without many people noticing and even fewer sensing the implications. The "money market" idea is pretty simple, the dollar you put into a fund keeps its value and doesn't fluctuate as it earns interest. Unfortunately when interest rates get too low, the expenses of investing the dollar and money market fluctuations make it nearly impossible to maintain that value every day. Eventually the day comes when it is worth a little less than one dollar and you do the unthinkable from years past, you "break the buck".

New Territory

Regulators and firms have been wrestling with this issue ever since "The Great Recession." Now I'm beginning to hear "uncle" or "I give." Rather than offer stability day in and day out, the value of the dollar in many funds

will “float” up and down with changes in the overall money market. Also, largely thanks to the 2008 experience, there could be a delay imposed “during periods of market volatility” (read: a run on the bank) to getting money back out of the fund. This is not something we’ve seen before, since the founding of these sorts of investments in 1971.

More Thought

Investing cash used to be simple and now it will require more thought. As yet, bank deposits would seem to maintain their simplicity. In other places from retirement plans at work, to your other investment accounts, it will be worth asking a few questions about cash balances and money market options in those accounts.

Bottom Line

When I started in 1983 things were just easier. Interest rates were high, stocks were low, cash investments earned over 10% and the economy was beginning a significant expansion. About the only bad thing was the atrocious mortgage rate on your home. Cash was King because new opportunities were almost everywhere you looked and you received good interest payments while you waited. Cash is still important for the flexibility and cushion it gives you. It’s just that now you have to be a little more careful where your cash is stored. It is also important that you don’t keep too much of it, because it earns so very little at today’s interest rates. As always, Tasia and I are happy to discuss how this or other challenges that may be impacting you and your goals & objectives.

Your Feedback

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I’d like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

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