

We Still Need Cash and How to Keep More of It!

Vol. 4 Issue 6 August 2010

Careful planning is important, but it's become even more crucial in the difficult economic environment of the last two years. Two issues that are in the news these days: fees and cash investments. With interest rates at historic lows, many people are resistant to keeping money in cash investments that offer very small returns. However, cash reserves are essential to financial security.

Because cash plays a vital role in your overall portfolio; even in current conditions, the benefits of security are important and should be factored in to decisions on how much cash to hold. Having cash is all about safety and availability. The goal is to have immediate access to a known amount of money with minimal risk of loss. In exchange for this protection, we give up the potential for higher returns.

We hold cash in our portfolios for several reasons:

1. First and foremost; Cash forms the base of an emergency fund that can be tapped when something unexpected happens.
2. Cash has a stable value and has no short-term risk, regardless of what the stock market does.
3. Holding cash allows us to rebalance investments in taxable accounts while minimizing the tax impacts of those transactions.
4. Cash acts as a holding place for money waiting to be invested in the stock market as part of a dollar-cost averaging strategy.
5. Maintaining accessible funds for new investments is part of an active management investment strategy, if the individual wishes to pursue active management. Typical places to hold cash are:

You should not expect interest rates on these types of investments to be more than the current inflation rate. As of July 15, 2010, Morningstar.com reported money market and six-month CD rates at about 0.8 percent and 90-day Treasury yields at about .15 percent. There are several places to hold your cash; money market, savings, checking accounts, CDs, and Treasury Bills. My choice is an online savings account linked to my checking account. Whatever you choose make sure it is insured by the Federal Deposit Insurance Corporation (FDIC).

Using any financial service or product incurs a fee, but some fees are harder to identify than others. Being a smart investor means understanding the fees you are paying. All mutual funds and exchange traded funds (ETFs) have a fee component. The fee pays for the operational cost of running a fund. In other words, they are necessary costs of doing business. However, the fees should be reasonable. Fees, like fund investment strategies, also vary greatly depending on what type of product and or strategy is being purchased. Nothing can replace the fund prospectus. A prospectus is written by the mutual fund company and provides important information on fees, investment strategies, risks, and much more. When you purchase a mutual fund, the fund must provide you with a prospectus, but it is better if you review the prospectus before you purchase the fund. The majority of the time you can find the prospectus on the mutual fund company's website. For a great explanation of the different types of mutual fund fees go to sec.gov/answers/mffees.htm.

Buck Financial Advisors provides independent, commission-free financial advice for people from all walks of life. When you or someone you know needs help, Buck Financial Advisors is there. See www.buckfinancial.com for more information.

Ask the CFP®



Charles Buck CFP®

I have been asked recently about financial education. As a member of the National Association of Personal Financial Advisors (NAPFA), I would like to inform you of an opportunity to attend a webinar each month over the next five months.

The topics include sending your child off to college, economic uncertainty and retirement, how to find an advisor, financial management for an aging parent, and more about understanding the fees and expenses. To view the topics and time, go to the link below. Best of all it is free.

www.napfa.org/consumer/UpcomingSessions.asp