

Park Your Cash in a Safe Neighborhood



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They say "cash is king," but it may take a while for it to reclaim the throne.

Conventional wisdom has usually divided savings into buckets. There is a portion of your assets — including 401(k)s and IRAs — that is invested to reap returns. The opposite end of the spectrum prizes security for your nest egg.

With "longevity risk," the prospect of running out of money during a lifetime — a top concern for many near or in retirement — the question being asked more and more is actually a chicken-or-egg type riddle: Which is more important, growing capital or protecting it? With the Fed still intent on keeping interest rates low, even as inflation creeps back onto the landscape, finding places to park your cash that offer both peace of mind and reasonable value is no easy task.

Choosing which instrument is best for your needs comes down to how available you want your money at all times, how important returns are and how much risk you can stomach.

Mike McGervey, president and founder of McGervey Wealth Management in North Canton, Ohio, describes a typical cash and cash-equivalency strategy as "protective mode."

"Typically cash in a money market earns next to nothing," he says. "Sometimes I will have a client ask, 'What's our cash going to earn when it is on the sidelines?' and I'll stop and tell them they are missing the point. If we are preventing a 30% decline in your portfolio then maybe, in effect, your cash has earned you 30% because it kept you out of the fire."

"There are things we need to talk to a client about before we run off and park money in a certain place," says Chris Abts, founder and president of Cornerstone Retirement Group in Reno, Nev. "When you are dealing with retirees or somebody getting close to retirement, one of the first things we want to do is address how much liquidity they need now and in the future. We find some people try to have too much liquidity, and that harms earnings, while other people don't have enough liquidity."

"If we suspect that cash is going to be on the sidelines for some time, we might look at a capital preservation fund of some sort that might pay a 3% yield and be invested in very short-term government securities," McGervey says.

Determining fixed expenses and considering post-retirement income sources in light of inflation and taxes can provide perspective on how much income they will need from their investments and how much risk they are willing to take for investing money for discretionary funds.

"Then we know how much money should be in safe money categories," Abts says. "Safe money is not something you park and two years later go and buy a vacation home. Safe money is ideally what you are going to use for income in retirement... We are going to look for something where we can't lose it and also get a good solid rate of return."

There are pros and cons to the various "cash" strategies depending on an investor's needs and desired outcomes. For those comparing returns, TheStreet's Banking My Way offers comparison tools and national averages to help compare rates for certificates of deposit, money market accounts and checking and savings accounts.

Bank accounts

For many, checking accounts should really be considered more of a service than a savings plan. Interest paid, such as it is, can be quickly eaten up by the increasing encroachment of multiple fees. As for traditional savings accounts, FDIC backing means your money is safe, even in a worst-case scenario such as a bank failure. The meager interest accrued, however, can barely keep pace with inflation.

Online bank accounts

As an alternative, high-yield bank accounts, many offered by online-only banks, offer better rates without sacrificing liquidity. They can do so because their purveyors have ratcheted up the competition with bricks-and-mortar branches and, lacking real estate overhead (and we assume all those chained pens would also add up) they can afford to be a tad more generous.

Treasury and securities

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The federal government also has a horse in the race. Treasury bills (with short-term maturity) and Treasury notes (with a longer commitment) are sold online by the government at TreasuryDirect.gov, as well as at most banks.

Given that inflation may be staging a comeback, despite the Fed's efforts, Treasury Inflation Protected Securities — commonly called TIPS — could make sense, as would the similar, private-sector issuance of Corporate Inflation Protected Securities.

Structured products

Money market accounts are another safe, FDIC-insured alternative, but often have restrictions on withdrawals and minimum balance. They differ from money market funds, often offered by brokerages, which invest in government securities, commercial paper (i.e. debt) and bank-issued CDs. While returns may be higher, they are pure investment plays and, just as is the case with a mutual fund, offer no FDIC safety net. Though touted as safe, there is risk, as was illustrated recently when there was a wave of funds "breaking the buck" and falling below a per-share value of \$1.

Structured products, such as CDs and money market accounts, are potentially good because they usually offer higher returns compared with other vehicles of their ilk.

"The downside to them is that they are not liquid investments," McGervey says. "If you make a commitment to a structured note you are usually doing so for 18 months, two years, three years or even longer than that.."

Bonds

More risky, given fears of cities and states going into default, are municipal bonds. They do offer tax advantages that can add value to their returns. An alternative was the federally subsidized Build America Bonds program, but it has already been defunded into oblivion by Congress.

Corporate bonds are a private-sector varietal, but they carry more risk. In fact, the returns are usually proportionate to the company's credit rating (the worse it is, the better the payoff).
