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Cash Management Strategies: Where Should I Park My Extra Cash

With interest rates hovering near historic lows (June 2020), and little likelihood of a meaningful rise in the foreseeable future, the prospect of finding safe yet decent yields for your liquid assets has become a significant challenge. Bank checking and savings accounts may be convenient for paying bills, but currently offer little to no interest on your deposits.

So, where exactly can you turn for some extra yield on your cash if you're willing to take a bit more risk or give up some of the convenience that bank accounts provide? The following are a few types of investments that may provide somewhat better yields than those offered by your bank accounts:

- *Money Market Funds*: Offered through brokerage firms such as Charles Schwab, Fidelity and Vanguard, these normally offer slightly higher rates than bank checking accounts while providing you with many of the same conveniences. Given the current low-yield environment, however, the incremental yield money market funds deliver relative to bank accounts is negligible. Although generally quite safe, these accounts are not FDIC-insured.
- *Certificates of Deposit (CDs)*: Typically having a fixed maturity (e.g. 3 months, 6 months, one year, etc.), CDs offer somewhat better interest rates than bank accounts or money market funds. But in exchange for that higher yield, you must commit to tying up your funds until the CD matures or face potential penalties. Therefore, if you're planning to invest a significant amount over several years, you may want to consider laddering CDs by staggering their maturities. As long as you meet certain requirements (see below), CDs are FDIC-insured.
- *Short-Term Treasury Bills and Notes*: As an investment class, U.S. Treasuries are the safest available (backed by the U.S. Government). Although you pay for that safety with a

historically lower return than other investments, their yield is sometimes better than what you would earn with a savings or money market account. Be careful, however, when purchasing longer-term treasury bonds (e.g. those that mature in 5-30 years) as they can lose value if interest rates rise from their current very low levels.

- *Ultra-Short Bond Funds*: Ultra short-bond funds can invest in corporate bonds, municipal bonds, or other types of debt and typically have maturities of less than 2 years. These funds can provide a better overall yield than the options mentioned above, but the principal value can fluctuate with changes in interest rates, changes in credit quality, or other factors. These investments are not FDIC-insured.

Which of these is the optimal cash management solution for you? That will depend greatly on your individual objectives and liquidity needs:

- *Manage Daily Spending and Bills*: For maximum convenience and flexibility use an interest-bearing checking account. If you don't need face-to-face customer service, consider an online bank that offers free ATM withdrawals. Interest rates at these "virtual banks" can often be higher. You'll have to mail in deposits or transfer them electronically, but that little bit of extra work may be worth it.
- *Park Extra Cash, Emergency Funds or Short-Term Savings*: Consider using savings accounts, money market deposit accounts or money market funds for this purpose. Note, however, that savings accounts and money market deposit accounts are FDIC-insured while money market funds are not insured.
- *Saving for Medium-Term Goals (1-3 years away)*: Leveraging some combination of CDs or "laddered CDs," short-term bond funds, treasury bills and notes will typically address these needs.
- *Saving for Longer-Term Goals (3+ years away)*: Over an extended period of time, holding cash equivalents is a recipe for losing purchasing power. Once you've paid taxes on what little interest you make, your chances of outpacing inflation are small. A more advantageous strategy in this instance may be a well-diversified portfolio of stocks and bonds that suits your risk tolerance and objectives.

Looking for the Best Yield?

- If you're willing to forgo face-to-face service, you may be able to get a better interest rate on your savings and checking accounts through an online bank such as Schwab Bank, Ally Bank, Marcus and others.

- Shop around: For example, websites such as **bankrate.com** can point you to higher yielding CDs. Many banks offer promotional rates and credit unions often offer better rates on CDs than larger banks.

Important Considerations:

- Watch out for hidden fees, restrictions and other costs; higher rates don't help if you're paying significantly more in fees.
- Always check for FDIC insurance coverage.
- For those in a high income tax bracket, keep in mind that you will likely have to pay taxes on your earnings (unless you own a municipal money market fund, municipal bonds or are investing in a retirement account).

What Does FDIC Insurance Cover?

- Insures single and joint checking, NOW, savings and money market deposit accounts as well as CDs held at insured banks and credit unions.
- Does not cover money invested in stocks, bonds, mutual (including money market) funds, life insurance policies, annuities or municipal securities, even if purchased through an insured bank.
- Maximum insurable amount is $250,000 per depositor, per type of account per insured bank (if you have multiple accounts at a single bank, we strongly encourage you to check with the bank to confirm that all of your accounts are FDIC-insured)

We are ready to work with you, your attorneys and tax professionals on the merits and specifics of these and other investment and financial planning options. For additional information on this or related topics, or to learn more about the investment management and financial planning services offered by us, please visit our website at www.strategicpartners-insurancegroup.com.

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