

SUMMER 2010



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# FINANCIAL FOCUS

## You Can Help Move a Mountain (of Cash)

**In** an uncertain economy, it's natural for people to "tighten their belts" by cutting down on their spending. And yet by having too much cash on hand today, you could actually slow your progress toward your financial goals of tomorrow.

Before we get to the possible pitfalls of hoarding cash, let's consider your fellow Americans' recent savings habits:

- How much? In the last quarter of 2008, the personal savings rate was 2.9 percent, the highest level since the third quarter of 2001, according to the U.S. Department of Commerce.
- Where? People are putting their money in what they

Consequently, as a nation, we are now sitting on a "mountain" of cash.

However, the trip up this mountain does not come free. While it's true that these vehicles may help preserve your principal, they may not provide you with returns that can keep up with inflation, which means that the more of these instruments you own, and the longer you own them, the greater the likelihood that you will lose purchasing power.

Furthermore, if you're putting most of your assets into cash, you're incurring "opportunity cost"—the chance to invest that money into vehicles that have the potential to provide the growth you need to help achieve your long-term goals, such as an enjoyable retirement.

***In these days, you may need a leap of faith to invest some of your cash. But history is on your side: Downturns have typically been followed by market rallies.***

So here's the situation: On the one hand, you have a tough economy and a stock market that has probably already saddled you with losses. On the other hand, you need to consider investing in stocks or other growth-oriented investments to help you reach your long-term goals. What's the

consider safe vehicles. At the end of 2008, the ratio of money market fund assets and bank savings deposits to stocks—as measured by the Wilshire 5000 Index, one of the broadest market indices designed to track the overall performance of the US stock market—was 95.4 percent, according to Ned Davis Research. (Keep in mind that the Wilshire 5000 index is unmanaged and not available for direct investment.) This ratio is the highest it's been since money market accounts were created in the early 1980s.

Of course, given the stock market decline, it's not surprising that so much money is going into these accounts, because people are looking, above all else, to preserve their principal.

solution? Balance. There's probably a place in your portfolio for short-term instruments whose chief benefit is helping to preserve your principal. But you may need to balance these holdings with investments that can potentially reward you with growth. The exact mix of assets depends on your risk tolerance, time horizon and individual goals.

In these days, you may need a leap of faith to invest some of your cash. But history is on your side: Downturns have typically been followed by market rallies. Plus, we may eventually see cash seeking higher returns, and that should have a positive impact on the financial markets.

It may feel comforting to have a lot of cash on hand. But if you're planning for the years ahead, you should consider putting some of that cash to work. **AM**