Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

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Cash is King?

Since June 2011, when I started working at P&A, U.S. stocks have powered an average annual return of 14.5%. In dollar terms, that would've turned $100 into $267, or more than 2.5x your original investment! This is the point where I'm obligated to tell you past performance does not guarantee future results. Nonetheless, I've been fortunate enough to add to my investment accounts on a regular basis, keeping my money invested and my cash balance small.

"Cash is king" is a phrase my father-in-law loves to tell me. He rarely let's an opportunity go without reminding me of his golden rule. He says it's always a good idea to have a few extra greenbacks stuffed in your wallet. While this advice has served me well a time or two, I'm going to talk about the role of cash as an investment.

First, let's circle back to the rally in stocks. Outside of a few small hiccups, we've been in an environment without much disruption. The result is an economy with real momentum and record marks for a variety of sentiment gauges. But cracks in the pavement are starting to surface…speculation in bitcoin, interest rates are ticking higher, and your great aunt is suddenly a venture capitalist.

We're interpreting higher rates as a sign things are good, and we wish your great aunt the best of luck. I've noted before that stocks shed about a third of their value once every 10 years, historically speaking. It's been about 10 years since the last big market decline. When stocks are going up and skepticism is fading, it's easy to forget what can happen.

It's been said before that a bull market won't die of old age…something has to knock it off course. So instead of spending the next 10 years worrying about when this bull market might end, we're sticking with our plan and staying invested. Predicting the end of a good run on a regular basis is hard to do, probably even impossible barring a bit of luck. Here are four reasons when holding cash makes sense to us:

1) **Emergency fund** – Our rule of thumb is 3-6 months of living expenses, depending on the number of income earners and the industry those jobs are in. If there are no earners, stash away 6-12 months.
2) **If you need the money soon** – Use five years as a minimum holding period for stocks. If you're planning to spend any cash in the next several years, it's not worth risking in the stock market.
3) **Peace of mind** – History would tell you that having all your money invested in stocks would've produced the best results for your portfolio. What it doesn't tell you is how hard it is to hang on. If keeping a little extra cash on the sidelines will help you get enough shut-eye and keep you invested, we can get on board with it.
4) **Being opportunistic** – In order to take advantage of a bear market, you need to have some dry powder. Investing some of your sideline cash or emergency fund can juice your long-term returns.

Holding cash is easy and makes sense to a lot of people. Recognizing the opportunity costs isn't easy, and cash returns haven't outpaced inflation, historically. If you have the above taken care of and still find yourself with a wallet stuffed like a Thanksgiving turkey, we champion an extra vacation, splurging on a new pair shoes, or sending the money our way to be invested.

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