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Speaker 1

Welcome. My name is Andrew Baron, and this is Well, it Depends! The podcast where I present the pros and cons of different financial decisions so that you, the audience, feel better informed when you're confronted with these decisions in your own life. In this episode, I ask the question what to do with cash?

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Before we begin a short disclaimer. This is being recorded on July 29th, 2022, the contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice. Any strategies discussed may not be suitable for listeners specifically, and so we strongly encourage consulting with your advisor before implementing any strategies to ensure they meet your individual objectives. Moving on. What to do with cash?

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Well, it depends. You may have built up a large cash position, and now you're wondering what to do with it. Well, it depends. First, assess your emergency savings. Emergency savings funds should be liquid. It should be cash you can access without any penalties and should be easy to get to. Typical examples of accounts that would satisfy this would be high yield savings, no penalty CDs or a money market account.

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You also want to make sure that you have about 3 to 6 months of current living expenses. You might want even 6 to 12 months if you have a less secure job, like a contractor or freelance. Or if it helps you sleep better at night. You also want to have cash for any major expenses that you might make in the next 12 months that you do not plan on financing.

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An emergency savings fund is the first place to add to your cash, if you don't have a satisfactory amount, because it's the first place to get raided if you have additional expenses outside of your normal monthly cash flow. After that, next question is, are you on track for retirement? If you're saving minimally for retirement or you're only contributing enough to get your employer match, you might not be on track for retirement. Every situation is different and you need to consider your own career trajectory and income potential over time.

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But all said, 20 to 30% contributions is a great target amount for most people. You also want to consider tax diversification, such as ROTH accounts, in addition to traditional pretax retirement savings accounts. If available HSA's or health savings accounts are a great place to put additional cash, since medical expenses are very likely to pop up for almost everyone over time.

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HSA's have the benefit of triple tax savings where you get a tax deduction in the year it's contributed, it grows tax free and is tax free to use for qualified expenses. So far we've focused mostly on accumulating accounts or building different accounts. But another consideration to make are your insurances and protections. You want to review your coverages to make sure that you are adequately protected, especially as you are establishing and growing your wealth.

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You want to make sure that your home and auto insurance are proper, especially as you are really growing your wealth. You want to make sure you have an umbrella policy for additional liability protection. You want to have disability protection, especially depending on the kind of job you have. If you have a very unique or specialized job, you might need additional layers to that.

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Life insurance and long term care considerations are also very important, and you should absolutely consider those depending on your individual situation. If all of your lifestyle costs are met, you have no debt or it is extremely manageable, retirement and health care accounts are properly funded and you are already contributing to other investments, you might consider alternative assets. These can include things like additional real estate beyond your primary home, or you might consider speculative investments such as private equity or cryptocurrency.

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It's important to stress that the reason you get into alternatives is because you've already satisfied the traditional points of wealth building and you have even more money. You want to save and diversify and take risk with. Alternative investments should not replace any of the other major pillars such as emergency savings or retirement accounts. To recap questions you should be asking yourself, what does your emergency savings account look like?

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Are you on track for retirement? Are you saving and investing outside of your retirement accounts? What debts could you pay down? After reviewing your insurance coverages, are they properly covering what you need protected? And if everything else is well funded, should you consider alternatives to help diversify? So to answer the question what to do with cash? Well, it depends!

*Speaker 1 = Andrew Baron, CFP®, Enrolled Agent, Associate Advisor