CASH MANAGEMENT STRATEGIES:
Where Should I Park My Extra Cash?

Interest rates are extremely low right now, and it's a major struggle to find decent and safe yields for your cash. While bank checking and savings accounts are great for paying bills, these accounts are offering little to no interest on their deposits these days.

Where else can you pick-up 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? Following are a few types of investments that may offer yields of 0.5% to 1% higher than those offered by bank accounts:

- **Certificates of Deposit (CDs)**: CDs typically mature at specific points in time (e.g. 3 months, 6 months, 1 year, etc.) and can offer better interest rates than are available through money market funds or savings accounts. The catch is that you have to tie your funds up until the CD matures or you might face penalties. Laddering CDs by staggering the maturities is a good idea if you're planning to invest a significant amount over several years. CDs are typically FDIC-insured so long as you meet the requirements (see below). CDs have offered relatively low returns since the 2008 financial crisis; however, their returns have still bested money market funds and checking/savings accounts.

- **Short-Term Treasury Bills and Notes**: Treasuries are the safest investment around as they are backed by the U.S. Government. You pay for that safety with much lower interest rates; however, those interest rates can still be better than those offered by banks for savings accounts and money market deposit accounts. If your intention is to keep your money safe, be careful 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 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.

Traditionally, money market funds offered through brokerage firms such as Charles Schwab and Fidelity offered slightly higher rates than bank checking accounts while providing investors with many of the same conveniences as bank accounts. Money market funds are not FDIC-insured, although they are generally quite safe. In the current low-yielding environment, money market funds are not providing much, if any, incremental yield relative to bank accounts.

How you invest your cash depends on your objectives:

- **Daily spending and bills**: Use a checking or 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 can often be higher. You'll have to mail in deposits or transfer them electronically but that may be worth it if you don't mind the extra work.

- **Extra cash, emergency funds or short-term savings:** Use savings accounts, money market deposit accounts or money market funds. Note savings accounts and money market deposit accounts are FDIC-insured while money market funds are not insured.

- **Medium-term savings (e.g. a couple of years away) goals**: Use CDs or "laddered CDs," short-term bond funds, treasury bills and notes or a combination of these.

- **Long-term savings:** Cash is typically a sure way to lose purchasing power over time. Once you've paid taxes on the interest, it's not likely that you'll have outpaced inflation. A better strategy is often a well-diversified portfolio consisting of fixed income and equities that suits your risk tolerance and objectives.

Tips for Finding Better Rates:

- If you're willing to forgo face-to-face service, you may be able to get better interest rates on your checking account through online banks such as Schwab Bank and others.

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

Things to Watch Out For:

- Be careful of hidden fees, restrictions and other costs; higher rates don't help if you're paying significantly more in fees.

- Check for FDIC insurance coverage.

- Taxes: Unless you own municipal money market or municipal bonds or are investing in a retirement account, you're likely to pay tax on your earnings. If you're in a high income tax bracket, this is an important consideration.

FDIC Insurance Protection:

- Generally, $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)
  - Single Accounts
  - Joint Accounts
  - Revocable Trust Accounts
  - Self-Directed Retirement Accounts

We at BOS are ready to work with clients, their 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 BOS, please visit our website at www.bosinvest.com.

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