

Financial Planning: Determining the appropriate amount of cash

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When building out a Financial Plan, one question that is often top of mind for clients of all ages (and all income levels) is “*How much cash should I hold?*”. It’s a simple question that doesn’t always have a simple answer. This can be especially true when we want to create a cash management strategy that specifically addresses the unique needs of a certain profession.

For example, we work with Equity Partners at Large Law Firms on maximizing every dollar in savings while also ensuring we have liquid cash available that lines up with their quarterly estimated tax bills. This cash management strategy is going to be very different than one that addresses the needs of someone who owns their own business which is an entire topic of discussion on its own.

However, part of my job is also finding balance and making sure that my team and I don’t over complicate things when we don’t need to. So, when working with clients who don’t have a special consideration due to their profession and I’m asked, “*How much cash should I hold?*”, I’ll often say that we can take one of the following two approaches (or some combination of the two):

1) The “Confidence” Approach:

In this approach, we determine what is the appropriate amount of cash that will cover the proverbial “Rainy Day Fund”. For clients who have relatively strong job security, we might decide 3-months of expenses in liquid cash is sufficient. For clients who want to be more conservative, we might decide the number is 6-months of expenses. Factors like income level, number of children, debt to equity etc. all come into effect. However, the point is (no matter what someone else tell you), the primary goal of Financial Planning is to help you sleep at night knowing you are confident financially. If having a certain amount of liquid cash available helps achieve this, then that is what matters most.

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2) The “Asset Allocation” Approach:

For clients who are less risk sensitive and want to try and offset entirely the effects that cash, during most timeframes, is a depreciating asset class – I recommend we take what I refer to as the “Asset Allocation Approach”. In this approach, we look at cash as an investment just like we would stocks, bonds, or any type of alternative investment. The goal of cash as an investment is not capital appreciation, but instead capital preservation (and in some circumstances lowering a portfolio’s volatility). When taking this approach, there are many factors we consider from what is cash currently yielding relative to bonds or other investment options to

what type of account are we going to hold the cash in. Ultimately, with this approach, the goal is to determine what percentage of cash should we hold relative to your total net worth and investment portfolio.

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No matter what we approach we take, the decision is not one you need to make alone. More importantly, through our team's process of using Financial Planning as the cornerstone of our practice, at a minimum we are going to revisit your cash management strategy once per year. This will help us ensure we are still taking the appropriate approach to help you meet your Financial Goals. And finally, for our clients who have unique circumstances due to their profession, we have the experience and the resources backed by Morgan Stanley to help you come up with a solution to that addresses your needs while also getting the most out of your money.

If we're not currently working together but you want to learn more about my team's process, please know that I am always happy to connect with no obligations on your part whatsoever.

ABOUT THE AUTHOR

Alex Garry is a Financial Advisor and partner on The Blue Cornerstone Group at Morgan Stanley Wealth Management. He has over a decade of experience working in Financial Services including holding various positions at some of the top investment management firms in the world. The cornerstone of Alex's practice involves working with client's and their families to create a detailed financial plan that helps them prioritize what is most important to them financially. Using that plan as a foundation, he then creates his clients a highly customized investment portfolio designed to help meet their immediate and long-term goals in the most tax efficient manner possible.

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CRC 4548076 06/25