FAHNESTOCK ASSET MANAGEMENT
of Oppenheimer & Co. Inc.

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Dear Client,

"Revenue is vanity, profit is sanity, but ***cash is king****."*
-Unknown

The origins of the phrase "Cash is King" expresses an important truth about running a business: **revenue and profits, while important, are meaningless unless they eventually translate into cash flow, the lifeblood of financial health.** Cash pays for immediate needs such as salaries and rent. Cash reserves are a buffer against economic downturns or unexpected costs. Once that hierarchy of needs is met, cash can be reinvested or distributed to shareholders.

There is a parallel to our personal finances. Income can be used for daily needs such as rent and groceries, and saved for emergencies or big purchases such as a house or a car. Surpluses can be invested to meet long-term goals such as college or retirement.

Cash is usually thought of as numbers on a bank statement or stacks of green bills. In finance the definition extends beyond the amount in a wallet, checking, or saving accounts and includes high-quality loans maturing within a year, such as money market funds, certificates of deposit (CD's), and treasury bills. Each has their appropriate uses and pros and cons:

Immediate Needs

Physical Cash can be stolen, burn up in a house fire, and earns no interest. **Checking Accounts** earn no interest and deposits exceeding the $250k FDIC limit are not guaranteed against bank insolvency. They are a convenient holding pen for managing short-term cash flows.

We recommend families, especially those in areas prone to natural disasters, keep a small stash of bills in case of emergency or extended power disruption. A month or two of expenses in a checking account is appropriate for immediate needs.

Reserves

Saving Accounts earn interest but many banks pay next to nothing. **CDs** offer higher rates but lock up funds for a set period and penalize early withdrawals. Online and regional banks tend to offer better rates but they are often teaser rates that change on a whim. Saving accounts and CDs are subject to FDIC limits.

Money Market Funds are comprised of short-term, high-quality debt securities. Some offer competitive rates, others have unnecessarily high fees. They are not FDIC insured and are only as safe as the underlying holdings.

Treasuries are loans to the US government, considered to be the safest borrower in the world. Rates are usually higher and more consistent than banks and money markets, they have no penalties and can be sold anytime at their current market value, and they are not taxed at a state level. **Treasuries are our preferred instrument for reserves.**

There is no fixed rule for how much to hold in personal reserves. In our opinion, 3-6 months of expenses is appropriate in case of job loss or emergency. It may be lower for dual income households or those with sizable investment portfolios. It may be higher for more risk averse people or to account for an anticipated purchase.

In March of 2023 five prominent regional banks collapsed reminding us all that deposits in excess of $250k are subject to loss. Cash quickly migrated from smaller regional banks to “too big to fail” institutions such as Chase, Wells Fargo, and Bank of America which offer relative stability and safety of principal, but at the expense of lower rates on deposits.

Managing treasuries can be cumbersome for non-professional investors. To facilitate access, we created a “Treasury Reserve Ladder” service in which we purchase a series of treasuries with maturities spread evenly over 1, 2 or 5 years. At maturity, proceeds are redeployed into a new tranche at the end of the series. **There is no credit risk, no penalties, cash can be transferred to a checking account in two business days, and the rates are consistently higher than other risk free alternatives, even after a very modest fee*. The strategy is housed in a separate account for personal reserves and not comingled with long-term investment portfolios.**

The original saying has evolved and “Cash is King” now reflects the unwarranted belief that cash is superior to other investments. While cash does play a meaningful role in a long-term investment portfolio to strategically capitalize on opportunities, **<u>cash is only king for short-term needs and personal reserves. For longer-term needs, cash is inferior to a balanced portfolio of stocks, bonds, and alternatives which have historically generated far better returns</u>.**

If you would like to review how our Treasury Reserve Ladder strategy might improve your personal or business cash reserves, don’t hesitate to reach out. We wish you a Happy, Healthy 2025!

Sincerely,

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