HELM
INVESTMENT MANAGEMENT

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"Cash is a greenback dollar," my father used to say. He only thought about cash as currency and currency is only a tiny fraction of the cash market. Actually, the Federal Reserve defines cash and cash equivalents as any financial instruments that are negotiable and immediately liquid. That definition includes checking accounts, passbook savings accounts, credit (and debit) cards. Arguably, cash even includes "free miles" programs, airline drink vouchers and the parking key that Denver Mayor Hickenlooper sells to drivers for Denver traffic meters!

When investment managers say the word "cash," they're referring to managing a myriad of short-term money choices, everything from money market funds, short term certificates of deposit (CDs), treasury bills, commercial paper and securitized debt, to name a few. All are immediately convertible into something investors can withdraw in the form of currency or a check. This is the equivalent of the cash that sits in your billfold or dresser. It's also an investment and a huge part of our financial markets.

Banks are notorious for giving their customers little or nothing or even charging for checking accounts. Money market funds, on the other hand, are checkbooks currently paying 2 to 4 percent. A few money market funds currently pay over five hundred basis points! (One percent equals 100 basis points.) Not bad in an environment in which a 5-year CD at Wells Fargo bank pays 3.75% . . . and only if you hold the CD to maturity!

While the rates earned on cash may seem small compared with historic stock market returns of more than 10% a year, it helps to think of cash returns in relation to inflation. If your cash sits in a checking account earning no interest, you actually lose money at the rate of inflation every year. Not such a big deal for one year, perhaps, but if you leave $20,000 in your checking account steadily for five years, you lose $2,500 in spending power, given an inflation rate of 2.7%. You could have increased your spending power by $2,400 if you had managed to eke out a 5% return on that cash instead.

Cash management, is neither risk free nor is it mindless. Some money market funds and many short-term fixed income funds hold securities that once were thought safe but now are known to be risky, such as housing credit and certain foreign bonds. A number of years ago, investors buying money in money market funds owning only high-yield short-term Argentina government bonds woke up to find half their checking account had vanished, or was frozen. And pity the big-time cash managers that laddered short-term CDs in failed banks and thrift institutions in amounts over the federally insured $100,000 limit. Cash management also involves constant monitoring. Some kinds of paper automatically "roll" but most don't . . . and institutions love to see that short term money slip from a bank cost of 5% to a bank cost of 2%. . . and they (almost) never call and remind you.

So the next time you think about cash, think about cash in the form of managed cash equivalents that are a fundamental part of your investment program, not just greenback dollars!

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