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Cash and Money Markets Can Increase Your Risks

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I have managed money for over 18 years and over that time I have seen my fair share of investors that keep an extremely large percentage of their wealth in cash, CDs, and money market. If they have an upcoming liquidity need like buying a new home or they have a couple of children heading off to college, then such position is prudent. However, often their stated reason for the large cash position is to lower risk.

Given the extremely low levels of interest over the past decade I take a much different view. What I would like to point out in the article is that the investor is half correct and half incorrect. They are indeed lowering risk but it's a specific type of risk. They are lowering market risk. Their assets are not in the stock nor bond market so yes indeed they are sheltering themselves from that risk.

However, they are actually increasing their longevity risk. From a purely financial standpoint living long is a risk. And it's one that I spend a ton of time hedging against. The interest rates of those cash investments are nowhere close to keeping up with inflation. When one combines that fact with the fact that, due to advances in medicine, we are all living longer the longevity risk factor could have true negative impacts if not considered. I read a statistic that currently there are less than 80K people living in the US that are over the age of 100. In the next 30 years, there will be over 1 million folks living in the US that will be over 100 years old! Longevity risk must be taken seriously.

Before reading this piece, you might have felt the title was one that was wrong or just used to get your attention. I hope this article provides evidence that cash can increase financial risk. Come in and meet with us and allow us an opportunity to show you how you can lower market risk without having to increase longevity risk. In fact, we have solutions that nearly eliminate both simultaneously.

So, the next time your friends or neighbors mention that they are keeping half of their assets in a "safe" investment like a savings account kindly mention to them that their investment is not nearly as safe as they think it is.

A handwritten signature in blue ink, appearing to read 'Brian Ulch', is written over a light blue horizontal line.

Best regards,
Brian C. Ulch, CES
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"Helping you find and maintain a lifetime of financial comfort"

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