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Financial & Retirement Planning for Life

You Can Enhance Your Portfolio through Wise Cash Management

You'll often see cash management used as a business term, but individual investors should pay attention to good cash management techniques, too. How you manage your cash and other liquid assets can affect your portfolio as you work to achieve your personal financial goals.

It's good to keep some cash. Among other uses, because it is liquid, it serves to protect you against having to sell long-term or less-liquid investments, perhaps at just the wrong time and, therefore, at a

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Essentials of Asset Allocation

In the wake of the financial markets meltdown in 2008 and 2009, it may seem brazen to remind investors of the principles of asset allocation because, frankly, even the most intelligently allocated portfolios ran into difficulties. Yet, generally, it has been true that stocks and bonds move separately within a portfolio while cash or cash alternatives steady the balance, thus reducing portfolio risk and smoothing returns over time.

In the eyes of most market analysts, asset allocation principles remain sound and should not be abandoned in favor of more opportunistic ideas that might seem momentarily attractive.

So, basically, time-tested asset allocation means dividing your investment portfolio among broad asset classes, including equities, fixed income and cash. Other classes may provide additional balance.

Diversification

That is only the beginning, of course, because even if you determine what percentages of your portfolio to dedicate to equities, fixed income or cash, you're still faced with multiple choices.

Investment possibilities within each category exist in great variety, and in order to complete an appropriate allocation of your assets, you'll have to take the next step, which is diversification – the range of investments you actually make within each asset category – with the specifics probably dictated by your financial goals, your investment time horizon and your risk tolerance level.

Intelligent Choices

Equities, or stocks, entail more risk than some other asset categories – but, historically, they have provided greater returns. If you're young and your goals can allow you to wait out market gyrations over time, you'll probably want a high proportion of your portfolio in equities, both domestic and foreign. If you're approaching or already in retirement, you'll no doubt want a much smaller percentage of your portfolio allocated to the riskiest investments and much more of it invested in fixed income instruments likely to provide steadier but lower returns, as well as cash or cash alternatives.

Your portfolio's fixed income allocation

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substantial discount. Imagine someone without enough cash suddenly being forced to sell equities or bonds during the recent recession, when market values were at their low point. Wise cash management acts as a hedge against such scenarios.

You'll probably want to keep cash for your shortest term needs as liquid as possible – in the best account offering check-writing or debit card benefits you can find. How much you keep available depends on your personal situation – but keep in mind there are trade-offs: The more liquid your financial assets are, the lower your returns are likely to be.

Also, take care to guard against what some specialists regard as another potential risk associated with cash: It is easily spent (unlike less liquid investments, which can take time and a bit of effort to turn into cash).

Other Cash Resources

You may want to manage your other cash resources differently. Money you have set aside while you wait for long-term investment opportunities may be kept in cash management accounts or elsewhere, as long as it is quickly available.

Your emergency fund cash – three to six months of living expenses – may well be held in a way that provides you with at least a modest return, as long as it is available without too much delay. Possibilities include money market accounts or certificates of deposits of varying terms. Assets held in these instruments are less liquid than cash in the bank, but they are easily retrievable – and, in the meantime, your money is earning at least a comparatively better return for your portfolio.

I'll be happy to answer any questions you may have. Just give me a call. ■

Asset Allocation *(continued from page 1)*

tion, which may include domestic and foreign bonds, should help keep your risk level lower, especially in times of market volatility.

The cash or cash alternatives element – money market accounts or funds, certificates of deposit, or cash in a bank account – is likely to grow even less, but these funds are easily accessed and add to portfolio stability.

Keep in mind that asset allocation always involves trade-offs. Higher return potential equals greater risk; lesser risk almost always means lower returns. The best portfolio ideas involve an astute allocation of assets, intelligently diversified. ■

There is no assurance that any investment strategy will be successful. Investing involves risk and investors may incur a profit or a loss. Asset allocation and diversification do not ensure a profit or protect against a loss. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise. International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

Financial Planning:

Coverdell Education Savings Account May Lose Luster

Among the three most popular ways to save for college, the Coverdell option has never led the way. Far more investors choose 529 college savings plans or custodial accounts for minors. If you own a Coverdell account, however, you should be aware of coming changes that could severely restrict its usefulness.

According to sun-setting provisions due to take effect at the end of 2010, the

maximum annual Coverdell contribution will be reduced from \$2,000 to \$500; tax-free withdrawals may be used only for college-related expenses (currently, they can also support K-12 education) and; taking a tax-free Coverdell distribution during a year in which Hope and Lifetime Learning credits are claimed will no longer be permitted.

If you started a Coverdell, you can wait to see whether Congress will

change the law or you can consider these alternatives:

- I Leave the money in place, knowing that next year, tax-free withdrawals may be usable only for college expenses.
- I Spend the money on K-12 expenses this year.
- I Close the Coverdell and arrange a tax-free rollover of its funds into another college savings plan. ■