

# CLIENT QUESTION

*How can I get a higher return on my cash reserves? Should I buy long-term Certificates of Deposit (CDs), Treasury notes, corporate bonds or bond mutual funds?*

*None of the above.*

Interest rates on cash deposits today are the lowest they have been in generations. There *seems* a compelling need to extend maturities to earn a high return.

History suggests this is a bad idea. Consider the *Yield Curves* chart below. In 1981, short rates were actually *higher* than long rates. This is called an inverted yield curve. It is unusual, and it usually forecasts a recession. Back in 1981, given the ability to earn 14% returns on one-year paper, most investors stayed short—and missed the opportunity to lock in double-digit rates for up to thirty years. *This was the best time in our lifetimes to buy long-term bonds.*

Today the yield curve is steeply positive. Twenty-year bonds

yield 4% more than money-market funds, which return almost nothing. But if the economy strengthens or inflation re-ignites, yields could rise sharply. When that happens, even high-quality, short-term bonds will lose value, and the higher interest rate you earn today might not compensate you for the loss of principal tomorrow.

Persuading clients to stay in cash during low-rate intervals is one of the hardest tasks a financial advisor faces. In a disordered market, there is no substitute for cash. Having cash allows investors to take advantage of opportunities and mitigate painful losses in other investments. *Cash is not trash.*

*Submit your questions to Shauna Mace at (610) 892-9900 or [questions@TGSFinancial.com](mailto:questions@TGSFinancial.com).*

