BNY MELLON
WEALTH MANAGEMENT

Building a Comprehensive Cash Strategy

BNY Mellon Wealth Management has centuries of experience helping individuals and families craft cash strategies. Applying our Active Wealth approach, we discuss the elements you should consider in building a cash strategy to meet your specific needs.

Understanding Your Liquidity Options

Investors now have numerous options to earn meaningful yields on their cash balances. But a comprehensive approach to managing liquidity extends beyond choosing the highest yields. Individuals should also consider liquidity, security, and the appropriate account location.

Before determining how much cash is right for you, it's helpful to think about when and how you will use it. We consider cash and cash alternatives in three distinct buckets: Operating Cash, Planning Cash and Strategic Liquidity.

Operating Cash is intended for the payment of day-to-day living expenses. It typically has daily liquidity and a lower yield than longer-term cash buckets.

Planning Cash is intended to cover recurring and known expenses within the next 6-18 months. Daily liquidity is generally available, but the money can be subject to early withdrawal penalties and market volatility, and yields exceed those on Operating Cash.

Strategic Liquidity is intended for more permanent uses of cash held over periods exceeding 18 months. It has the lowest liquidity and highest yield of the respective cash buckets.

Three Buckets of Cash

Cash Bucket	Purpose	Time Horizon	Liquidity	Yield	Solutions
Operating Cash	Day-to-day expenses	0-6 months	Daily	Lowest	Checking/Money Market/Savings
Planning Cash	Recurring & known expenses, tax liabilities, future capital calls, asset allocation implementation	6-18 months	Limited, subject to penalties and market volatility	Moderate	Savings/CD/ Treasuries
Strategic Liquidity	Liability matching, permanent cash balances for entities or escrow	18+ months	Limited, subject to market volatility	Highest	ST Bonds/CDs

Risk Considerations for Cash Vehicles

While cash investments are generally considered lower-risk investments compared to stocks or bonds, there are still several risks associated with them. Unlike financial securities which fluctuate in market value, cash deposits are intended to maintain their nominal value. Let's take a look at how several cash options are subject to liquidity risk (the ease at which an asset can be converted into cash), credit risk (the possibility of default on obligations) and interest rate risk (the potential for losses due to a move upward in interest rates).

Cash Programs and Three Key Risks

	Liquidity Risk	Credit Risk	Interest Rate Risk
Bank Deposit Programs (i.e., checking, savings, money market accounts)	• Same day access to funds, with the exception of CDs, which are term dependent	• FDIC-insured up to $250,000 per depositor or $500,000 for joint accounts	• Rates adjust with prevailing market rates
Money Market Funds (MMFs)	• Non-Sweep MMFs require a trade order to sell funds	• Non-Government MMFs invest in short-term debt securities issued by corporations, financial institutions and other entities. • Credit risk requires ongoing monitoring	• In rising rate environments, fund yields may lag market rates
Short-Term U.S. Treasuries	• Must execute a trade • Bid-offer spreads typically increase in crisis periods	• Backed by U.S. government • Potential risks associated with debt-ceiling debate	• In rising rate environments, price declines may result in risk to principal unless held to maturity
U.S. Treasury bond mutual funds/ETFs	• Involves a trade	• Although underlying bonds are backed by the U.S. government, a fund/ETF can underperform	• In rising rate environments, price of underlying bonds decline

Notes: Bank Deposit Programs may be susceptible to illiquidity; MMFs could potentially implement liquidity fees or redemption gates during adverse market conditions.

It is important to carefully consider the risks associated with cash investments and balance them with potential returns and investment objectives.

Understanding the Protections

As noted in the table above, BNYM N.A. deposits are eligible for FDIC insurance up to $250,000 per depositor and $500,000 for joint accounts. Additional information on FDIC insurance can be found here. Furthermore, the regulatory nature of being classified as a Globally Systematically Important Bank (GSIB) requires BNY Mellon to maintain leverage and liquidity ratios in excess of banks with fewer than $250B in assets. Our company is consistently ranked among the top financial firms with strong external credit ratings. Additional information on our credit ratings can be found here.

Now's the Time to Evaluate Your Cash Strategy

On a periodic basis, all investors should evaluate their liquidity needs within their total wealth plan. This is an element within our Active Wealth approach, our comprehensive framework that helps investors build and sustain wealth. Doing so can help ensure you have the right balance of being able to meet your short-term liquidity needs, while maximizing your portfolio's long-term performance.

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The information in this paper is as of May 2023. It is based on sources believed to be reliable, but content accuracy is not guaranteed.

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