How Can I Better Manage My Short-Term Cash?

For the vast majority of people, it is essential to keep a portion of their assets in liquid form in order to meet monthly commitments.

For example, most families have to meet their mortgage or rent payments, grocery, utility, and transportation bills out of their monthly paychecks. There are a host of other expenses that arise from month to month, such as auto insurance, that help keep the pressure on the family cash flow.

If people are fortunate enough to have anything left over once all the expenses have been met, then they can worry about saving or investing for the future.

The paychecks that you deposit in your checking account, which seem to swiftly disappear as you pay monthly expenses, constitute a portion of your short-term cash. The money is no sooner in your bank account than it flows out again as payment for goods and services.

However, because the money that we use to meet our monthly expenses is so liquid, there is a tendency to simply look at it as a method of payment. We often leave more than we need in our checking accounts, gaining little or no interest until we need it for a future expense.

By actively managing the short-term cash that passes through your hands, you can provide a means of saving for the future. You can use this money to increase your net worth with little or no additional risk to your principal.

Short-term investment instruments, such as Treasury bills, certificates of deposit, and money market mutual funds, can provide you with the liquidity needed to meet expected and unexpected expenses and to increase your short-term investment income.

There are numerous alternatives available to enable you to get your short-term cash working for you. The key to successfully managing your short-term cash lies in understanding the alternatives and choosing the one most appropriate to your particular needs and circumstances.

Treasury bills are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. Bank CDs are insured by the FDIC for up to $250,000 per depositor, per institution in interest and principal.

Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1 per share, it is possible to lose money by investing in money market funds.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

The information in this article is not intended to be tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Emerald.