

# Ruminations on the Pile of Cash on the Sidelines

Ron Surz 8/4/10



The media has reported that \$Trillions are sitting idle on the sidelines, presumably waiting for some sort of buy signal in this economic mess. Even worse, much of that cash is paying a premium to use the government's mattress, since real (after inflation) returns on Treasury bills are negative. So how can advisors help their clients put that pile of dough to better use? Here are a few thoughts.

1. The ultra wealthy may want to use this opportunity to "lock in" certain purchases that are planned for the future, like college funding or that next yacht. This "pockets of money" approach has been described and advocated by academics for a long time now. In its simplest form, the client purchases Treasury Inflation Protected Securities (TIPS) with a face amount equal to the future expenditure, maturing on the date that the expenditure is anticipated. Variants on this theme employ call options to sweeten the pie with some participation in the stock markets if they go up.
2. Real market neutral hedge funds have the potential to deliver better returns than the zero provided by T-bills. By "real" I mean not the pretend stuff that calls itself market neutral but is actually a collection of factor bets, like value will outperform growth. Real market neutral is a pure play on stock selection that has literally no factor exposures. Such approaches do exist and can provide a "tracking error" relative to T-bills of about 4%, which in a zero interest rate environment means returns in the +4% to -4% range. Where there is the potential for reward there is the corresponding potential for loss.
3. Think about inflation hedges. If we experience high inflation, as I personally believe we will, that \$Million in cash will be worth substantially less. This is particularly important to those who have left the workforce. Inflation can easily impact a retiree's standard of living. Inflation hedges include gold, certain stocks, and some derivative plays. View these as inflation insurance. We hope the premium is wasted.

# Annual Inflation Rate

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