Four Ways To Use Cash Wisely

There has been a lot of talk about a "cashless" society, but it's not here yet. In fact, cash can still be a valuable element of your overall financial picture — if you employ it wisely. But how?

Consider these four key uses of cash:

• *Everyday spending* – Of course, you need sufficient cash on hand to pay for your cost of living — mortgage, debt payments, utilities, groceries, etc. You'll likely rely on your savings or checking accounts to pay for these needs.

• *Unexpected expenses and emergencies* – It's never a bad idea to establish a monthly budget. But, as you know, life is unpredictable — and sometimes you may encounter "budget-busting" expenses, such as a major home repair or a large medical bill. If you haven't planned for these costs, you might be forced to dip into your long-term investments, such as your IRA and 401(k), which can result in taxes, penalties and less money for your retirement. A better alternative is to prepare by building an emergency fund containing up to six months' worth of living expenses in cash, or at least in a highly liquid account, held separately from your regular checking or savings account, so you won't inadvertently spend the money.

• *Short-term savings goal* – When you are investing for a long-term goal — especially retirement — you will likely need to own a reasonable percentage of growth-oriented vehicles, such as stocks and stock-based mutual funds. The value of these investments will fluctuate, so, if it's possible, you'll want to avoid selling them when their price is down — which may make them unsuitable for short-term goals. But if you're aiming for a goal that you want to achieve in a year or so — a wedding, a long vacation, and so on — you'll want to be sure a specific amount of money is there for you when you need it. Consequently, you'll want to put away cash for this type of goal, possibly in a short-term savings or investment vehicle that might pay somewhat higher interest than a regular checking/savings account.

• *Source of investment* – In regard to your longer-term investment strategy, cash can play two important roles. First, it can serve as its own asset class alongside others, such as stocks and fixed-income vehicles. Unlike these other asset classes — especially stocks and stock-based mutual funds — cash won't fluctuate in value, so it can potentially help lessen the impact of market volatility on your portfolio. And second, having the cash available in your portfolio gives you the opportunity to quickly take advantage of other investment opportunities that may occur. And you may be able to use your existing investments to help replenish the cash in your portfolio. For example, if you choose to take stock dividends in cash, these dividends can be "swept" into your brokerage account and held there until you're ready to invest them. (However, depending on your comprehensive financial strategy, it may be a good move to reinvest the dividends into the same stocks or stock funds.) Keep in mind that you won't want your investment accounts to contain too much cash, since its purchasing power can erode because of inflation.

By managing your cash efficiently, and putting it to work in different ways, you can gain some key benefits — and you'll help yourself to keep moving toward your short- and long-term goals.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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