Making the Most of Your Money
RSS feed

05/10/12
By Susan Carr-Templeton /

Invest Cash to Enhance Dollar Value

"I know something that is not safe. It's a dollar in your pocket. It will be worth less over time."
Warren Buffett on May 8, 2012, when CNBC's Becky Quick asked what he considers a risky investment.

When asked what remains the least risky investment, Warren Buffett explained, that in his opinion, with a five-year time period or longer, it is stocks, as they will grow in value as the economy continues to come back from its downturn, albeit slowly.

My recent blog discussed the detrimental impact of keeping your money in cash due to inflation's impact--it reduces the value of your dollar or spending power.

The question so many investors sitting on the sidelines have is: Where do I put my money today? Most feel fearful of the stock market, and they keep hearing about the risks of buying bonds, because when interest rates rise (and they will), then bond values decline. So where should you put your money right now?

First, accept the fact that for your investment return to reach or exceed inflation, you will need to risk losing a portion of your principal. Sad but true, it is the investment climate we are in today. The history of investments, investment theory and mathematical analysis all suggest that spreading your investments over a variety of asset classes remains the best way to minimize losses. It is the best strategy available to investors we know.

So, consider these three steps:

1. Think about including asset classes with low correlations. Investments' correlations describe their relationships with one another. A high correlation means that certain investments perform in a similar manner to changes in the market. A low correlation means they perform independently of one another. Stocks, bonds, real estate, commodities, and master limited partnerships have lower correlations to one another than a portfolio of just one asset class.

2. Use low-cost mutual funds (not “load” funds) or exchange-traded funds (ETFs) to invest in these classes. The added benefit is that their broad baskets of underlying holdings give you additional diversity.

3. Invest your hard earned cash into your portfolio slowly. This is called dollar cost averaging and serves as another way to add conservatism to your portfolio. For example, select a time period between six and 12 months and invest in increments of one-quarter of the total you plan to invest each time.

A variety of funds’ managers invest in bond types that are less sensitive to interest rate increases. Choosing one of these funds allows you to enjoy the diversification of bonds in your portfolio without the impact of increasing interest rates on your principal. I will talk about some of these investments in my next blog.

Disclaimer: The views expressed in this article are the opinions of the author and should not be interpreted as individualized investment advice. Investment objectives, risk tolerances and the financial situation of individual investors may vary. Please consult your financial and tax advisors before investing.

Tagged as: *mutual funds*, *exchange-traded funds*, *ETFs*, *cash*, *interest rates*, *bonds*, *stocks*, *bond funds*, *inflation*, *Warren Buffett*, *invest*, *value of dollar* *and* *dollar value*

Share:

Susan Carr-Templeton is an Oak Brook-based financial planner and wealth manager with more than 20 years of investing experience. With a fee-based model, she also works with clients in DuPage and Hinsdale, Illinois. In addition to managing Stafford Wells Advisors, Ms. Carr-Templeton volunteers on the investment committee for the Advocate Foundation. She offers personal finance on investing, saving, retirement and more in “Making the Most of Your Money.”