KIM: For funds needed in short-term, 0% often the ideal return

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INVESTING
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Mark Twain famously said, "I am more concerned about the return **of** my money than the return **on** my money." Twain wasn't an investment professional, but his advice is timeless.

People frequently ask me how they should invest their money. While everybody's situation is different, I always advise them to **not** invest any funds likely to be needed in the next 3-5 years. The reason is the stock market can experience periods of extreme volatility. Investors never complain about upward volatility, but have to realize stocks can rapidly drop 10-20% for any or no reason.

You ***don't*** want to risk having the funds you have earmarked for a specific purpose, like buying a house or paying for your child's college education, get whacked just before you need them.

Carl Richards is a certified financial planner and author of The One-Page Financial Plan. Friends recently sold their house and had a tidy sum of cash after paying off their mortgage. They planned to buy another house in 3-5 years and were trying to decide what to do with the cash in the meantime.

Richards said this cash wasn't actually money to his friends, it represented their future shelter. Because it ***had to*** be there when they needed it, they could afford to take exactly zero risk with it. The prospect of earning essentially 0% in a bank CD was not appealing, but Richards argued if we've mentally assigned money to goals 3-5 years away, ***knowing the money will be there is more important than finding an extra percentage of return.***

Warren Buffett also places a high value on safety. In his most recent letter to shareholders of Berkshire-Hathaway, he said, "we will always be prepared for the thousand-year flood; in fact, if it occurs we will be selling life jackets to the unprepared." He went on to note in healthy businesses, cash is sometimes viewed as a non-producing asset that serves as a drag on profitability measures, so should be minimized.

However, "cash is to a business as oxygen is to an individual: never thought about when it is present, the *only* thing in mind when it is absent." He explained during the financial crisis, many prosperous companies found their financial oxygen had vanished. During a three-week period in the fall of 2008, Berkshire supplied $15.6 billion of cash to American businesses, on terms dictated by Buffett.

Buffett described how Berkshire always maintains at least $20 billion in cash equivalents; i.e. U.S. Treasury bills yielding essentially 0%. He said, "the reason for our conservatism, which may impress some people as extreme, is that is entirely predictable that people will occasionally panic, but not at all predictable when this will happen. Though practically all days are relatively uneventful, tomorrow is *always* uncertain. (I felt no special apprehension on December 6, 1941 or September 10, 2001.) And if you can't predict what tomorrow will bring, you must be prepared for whatever it does."

Finally, "we will never play Russian roulette with the funds you've entrusted to us, even if the metaphorical gun has 100 chambers and only one bullet. In our view, it is madness to risk losing what you *need* in pursuing what you simply *desire.*"

Sage advice and words to live by.

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