# "Cash isn't Trash, Cash is King"

Robert M. Doroghazi, MD*

When General Steel in Granite City, IL, closed in 1974, my father lost his job of 37 years, and hired on as a custodian at the School Board. Uncle George lost his job of 30 years, and hired on in the stock room at Famous-Barr. To further supplement his income, Uncle George began to frequent area pawn shops. When he had difficulty closing a deal, he would put the merchandise he wanted in one pile, the cash he was willing to pay in the other pile, and say simply to the pawn shop owner "which pile do you want?" In more than 20 years, he was turned down only once. Cash is king.

## How Much Cash Should You Hold?

I would look at this from three perspectives. First regards prudent reserves. Everyone should keep at least 6 month's living expenses in cash and cash-equivalents. You have a major, unanticipated expense, such as a medical bill or a new furnace, or, you and/or your spouse lose your job (as far too many hospital-employed physicians have experienced as a result of the COVID crisis). You must have something to tide you over a rough spot.

The second regards investing in general. It is the person with cash (and borrowing power) who can scoop up investments when prices are down. This ranges from the obvious bear market in any major asset class, such as equities or real estate, to more personal situations, such as a desirable collectable you have coveted for years finally coming to market. Or, an acquaintance is in a tough spot and needs cash, and is willing to sell you quality jewelry or a fine watch for a favorable price, an amount much more than they would receive on a distressed sale at a pawn shop (I do not believe this is predatory: you are helping them when they need help).

Lastly, during times of economic crisis and uncertainty, such as when Roosevelt closed the banks immediately after entering office in March, 1933, or during the financial crash of October, 2008, or should there be social unrest, you need some physical cash just to get along.

The traditional argument against holding cash as compared to fixed-income securities such as a Certificate of Deposit (CD) or a bond, is that cash produces no return. Here is the main point of this Editorial. With today's miniscule interest rates, CDs and bonds don't produce much of a return either. Traditional fixed-income investments have lost much (almost all) of their advantages to cash.

The longer the duration, the more disadvantages to holding fixed-income. In early June, 2020, the 30-year US Treasury paid a coupon rate of about 1.45%. That is exactly what you will receive, a 1.45% taxable return per year, year in and year out. If the Federal Reserve achieves their goal of 2% inflation, you are guaranteed a loss of purchasing power every year for the next 3 decades. This is why Warren Buffett calls Treasury Bonds "Certificates of Confiscation". If interest rates rise, you're even farther in the hole.

There are compelling reasons to anticipate that these puny, manipulated, interest rates (or, God forbid, negative interest rates) will persist for years, or even decades, as in Japan. Bottom line: by holding cash rather than tying your money up for years, you are losing very little, and gaining all the advantages of having your money instantly available.

Ask any banker what is their primary business. It's not taking deposits, or lending, or generating fees: its relationships. And it goes both ways. Just as at some time in everyone's life they need a physician, at some time in your life you'll be in a pickle and need the bank's help. Going forward, if you have CDs maturing, rather than roll them over as most people did before, you could put the proceeds in a check account or money market at the same bank. On a one-year, $10,000 CD paying 0.3%, you're losing less than $30, while you've gained instant access to your money.

For a variety of reasons, banks will sometimes have "CD specials" that pay rates significantly over the current market. They are usually for one year or less, and require a

Manuscript received June 11, 2020; revised manuscript received and accepted June 17, 2020.

Conflict of Interests: None.

No funding sources.

*Corresponding author: The Physician Investor Newsletter, 115 Bingham Road, Columbia, MO 65203-3577. Tel: 573-443-0893.

*E-mail address:* rdoroghazi@yahoo.com



https://doi.org/10.1016/j.amjcard.2020.06.071

significant balance. They often attract "fast money". Pursue this if it is to your advantage, but not to the detriment of the banking relationships it took you years to establish. And wherever you put your money, whether checking, money market, or CDs, please be aware of the limits of FDIC protection.

*Robert Doroghazi is a retired cardiologist who trained at the University of Chicago, the Massachusetts General Hospital, and Barnes Hospital. Warren Buffett said his book The Physician's Guide to Investing: A Practical Approach to Building Wealth should be "required reading at med schools". To sign up for a free trial to The Physician Investor Newsletter, visit* www.thephysicianinvestornewsletter.com.

*Doroghazi is not a registered financial advisor under federal law or any state law. The advice provided is of a general nature, and should not be interpreted as personalized or individualized to your specific portfolio.*