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women investors**

In Client Portfolios, How Much Cash is Enough?

by: [Joseph Lisanti](#)

Everyone agrees that a rainy day fund is necessary. But beyond the money to cover living expenses for six, nine or 12 months in a separate emergency fund, how much cash should your clients hold? In particular, how much cash should they hold in their portfolios?

Planner Robert Wander of Wander Financial Services in New York City notes that the individual client's circumstances will determine the actual percentage. People planning to buy a home within the next two years or fearing the loss of a job are advised to hold more cash.

"All else equal, I would keep the bare minimum in cash," Wander adds, citing the negative real returns. He defines "bare minimum" as 1% or 2%. For clients who feel that they may need some money for short-term, temporary expenses, Wander suggests opening a home equity line of credit while rates are low.

The view is different at Dillon Financial Planning in Eagle, Idaho. "Cash is just as important to the portfolio as any other asset class," says planner Debra Dillon.

In addition to covering up to a year's worth of expenses in a separate rainy day fund, Dillon advises even young clients to hold cash in their portfolios. "I might only do about 5% of cash in their portfolio," she says. For retirees, recommended cash in the portfolio could equal living costs for up to five years.

As The Reserve Fund showed five years ago, money funds entail some risk. "I think the risk is marginal," says Wander. But with the average money fund paying a dismal 0.01%, he prefers an alternative. "I'd be more inclined to keep the money in a bank account," Wander says.

Although they disagree on how much cash to hold, Dillon and Wander see eye to eye on where to hold it. "I'm old fashioned," says Dillon, "but there's nothing better than an FDIC-insured account."

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