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Short Term Excess Cash – Where do we park it?

Sometimes our clients come into excess cash. They sell an asset or a business. They receive an inheritance or gift. They receive a large bonus or award. And, though the client feels secure in the fact that Cornerstone is investing their other assets in a personalized and diversified portfolio, the client is reluctant to enter the market with the excess cash. Perhaps the market is volatile or perhaps the client is re-thinking his or her investment strategy. What do you do with the cash while you decide? One investment we sometimes offer in this scenario is Municipal Bonds.

What are Municipal Bonds?

Municipal bonds are debt obligations issued by states, cities, counties and other governmental entities, which use the money to build schools, highways, hospitals, sewer systems and many other projects for the public good.

When you purchase a municipal bond, you are lending money to a state or local government entity, which in turn promises to pay you a specified amount of interest (usually paid semiannually) and return the principal to you on a specific maturity date. And, some municipal bonds offer income exempt from both federal and state taxes.

How Safe are Municipal Bonds?

When you invest in a municipal bond, your primary concern should be the issuer's ability to meet its financial obligations. Issuers of municipal bonds have a record of meeting interest and principal payments. To properly diversify the investment, we typically will use various diversified municipal bond mutual funds aligning the investment with the client's risk tolerance. So, the idea would be to be able to generate tax-free yields that could exceed current interest rates offered by banks with the understanding that the client would take on a little more risk. But, in a lower interest environment, municipal bonds tend to perform well given that the investors are seeking a higher yield with a relatively conservative investment.

This technique is often used by the Cornerstone advisors for their own excess cash as they await buying opportunities in the market. It's also worth noting that the use of municipal bonds can be not only a short-term investment strategy, but also a long term one.

If you'd like to learn more about municipal bonds or municipal bond funds for your excess cash, just give us a call to evaluate the specific options available.

An increase in interest rates may cause the price of bonds and bond mutual funds to decline. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free, but other state and local taxes may apply. Capital gains tax could apply to sale of muni bond funds.

Investment in a money market mutual fund or municipal bond fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although the funds seek to preserve the value of your investment, it is possible to lose money by investing in the funds.

Securities offered through LPL Financial, Member FINRA/SIPC. Investment Advice offered through Cornerstone Wealth Strategies, Inc., a registered investment advisor and separate entity from LPL Financial

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