



## The Case for Liquidity

You might have multiple options to achieving your financial priorities – but not every option is created equal.

When it comes to wealth, it's easy to get caught up in high-level numbers like net worth or investable assets. In managing that wealth to maximum advantage, though, it's often less about the total assets as it is how much flexibility you have. By preserving some degree of liquidity, you might be able to maximize stability, mitigate the impact of volatility and take advantage of any opportunities that happen to come your way.

Chances are, you have multiple financial goals – a comfortable retirement, a college education, a second home close to the kids – with varying priorities, time horizons and strategies for paying for them. How you choose to address any one of those goals influences your ability to address the others – and can have repercussions on financial concerns like monthly cash flow and taxes. That's why, when done well, wealth management is

as much about maximizing choices as it is maximizing wealth – and that means making liquidity a priority.

### Consider the following scenarios:

*You're looking to move and have an eye on a new house.* You could make an offer that's contingent on the sale of your existing house – but that contingency introduces uncertainty into your offer, which can't help but make it less attractive to the seller. What if you could access a bridge loan to pay for the new house now, and then repay the loan when you sell your old house? Or what if you could make an all-cash offer? That financial flexibility could be the advantage you need to secure the winning bid.

*You have a large expense, like an insurance payment or a tax bill, that you weren't expecting.* You might decide to sell stock to cover it. But that decision could ►

## The Case for Liquidity *continued*

create an entirely new set of concerns, like how the sale might impact your taxes and your broader portfolio. You would also have to account for any transaction costs as well as the possibility of selling at a loss in a down market.

*You're a business owner looking to build out your new company.* You could consider taking out a business loan to pay for start-up expenses, inventory and salary, but then you're paying for financing as well, increasing the total cost. As your business grows, preserving liquidity lets you cover any short-term cash flow issues, keep the company afloat during emergencies and potentially secure any credit your business might need.

In each of these scenarios, what's clear is that the cost of cash isn't always equal. Having ready access to cash can keep you from tapping other resources you have available (and consequently incurring new costs) and could present you with opportunities you might not have otherwise. Moreover, it potentially mitigates or eliminates opportunity costs: If you sell a stock to pay for a big tax bill, for example, not only might you have capital gains to think about, but that stock is no longer available for future goals (like the college education), and your retirement portfolio has now become a little smaller. Managing your wealth well requires an understanding of how any decision you make now could impact your future decisions.

By being liquid – having cash or credit on hand when you need it – you might be able to better meet these needs without having to make larger, more permanent changes to your portfolio or broader financial plans. It gives you options for getting from Point A to Point B without sacrificing your other priorities.

That said, there's more to increasing your liquidity than keeping more cash on hand – in fact, you can become too liquid if in the pursuit of maximizing financial flexibility you shortchange your savings.

Please reach out if you or anyone you know would benefit from discussing this topic further.