

# BUSINESS on main

## Where To Stash Your Cash

by Randy Myers

For years, Glenn Phillips kept extra cash on his company's balance sheet to tide him over through economic downturns. His prudence served him well through the recent recession, but now he faces a new challenge: finding a good place to stash his cash during a period of extraordinarily low interest rates.

Until a few years ago, this wasn't much of an issue. While banks could not pay interest on business checking accounts, they could pay interest on money market accounts, and as recently as 2007 those accounts boasted yields above 4 percent. Upon request, many banks would automatically sweep excess cash from their clients' checking accounts into a money market account.

### The effect of plummeting yields

They still will, but today many of those money market accounts yield as little as 0.1 percent. That's hardly worth the bother of maintaining two accounts, especially where minimum-balance fees apply. Phillips, president of custom-software maker Forté Inc. in Pelham, Alabama, recently closed his company's money market account after falling yields, combined with monthly fees, left it costing him money. "We now keep our reserve in our regular business checking account," he says. "It's safe and very liquid."

Some relief will come in July 2011, when banks can start paying interest on business checking accounts under the recently enacted Dodd-Frank financial reform act. But as certified financial planner Brandon Parkhurst of Edwards, Colorado, notes, banks aren't likely to pay very high rates on those accounts, especially on smaller balances. That means companies intent on earning a meaningful return may have to search elsewhere.

### Your plans depend on your time horizon

Where they, or you, should go will depend on how soon cash reserves might be needed. For money that could be needed within the next 30 days, business consultant Kenneth C. Halkin of Amesbury, Massachusetts, suggests sticking with your bank's money market fund, assuming you have enough to invest that fees don't offset the returns. Most banks offer a tiered interest-rate and fee schedule in which their rates rise and fees decline as account balances get larger. Denise Beeson, a former bank officer and now a commercial loan officer with Santa Rosa Mortgage & Investment Company in Santa Rosa, California, says companies with substantial reserves should push for a better-than-advertised deal. "Money market rates are negotiable if the amount is above \$100,000, as long as you speak with the bank's small-business representative or branch manager," she says. "The teller or other employee of the bank will not have the visibility or authority to negotiate."

For maximum safety, don't keep more than \$250,000 in any one bank — that's the limit of federal deposit insurance offered per depositor, per insured bank.

For money that could be needed within 30 to 90 days, Halkin recommends a high-yielding money market account of the sort typically offered online. In September 2010, ING Direct offered a business money market account yielding 0.95 percent, and Capital One Bank offered one yielding 1.05 percent. Users wire money back and forth between their business checking and money market accounts as needed, but are limited to six withdrawals from their money market account each month.

### Longer-term, consider laddering CDs, bonds

For money that won't be needed for at least 90 days, Halkin recommends a portfolio of longer-term certificates of deposit or U.S. Treasury bonds, "laddered" so that some securities are coming due — and hence are available for use without penalty — each month. In September 2010, the average five-year CD was yielding 1.72 percent, according to Bankrate.com, while 10-year Treasuries were yielding 2.65 percent.

Glenn Friedman, managing partner of Metis Group Certified Public Accountants LLC in New York City, cautions that small-business owners looking to the CD or Treasury markets for their cash reserves should be certain they won't need their money anytime soon. "The financial markets are so volatile that if I'm going to need the money in the short term, I wouldn't be putting it into anything that could be gone today," he says.

Of course, if there really is no looming need for your company's extra cash, you could bypass the financial markets altogether and use it to pay down debt. Halkin calls this "the first and best use of cash right now." Doug Palmer, CPA and founder of Palmer Financial LLC in Bethesda, Maryland, also likes the idea, noting that most companies are earning less than 1 percent on their cash reserves right now but paying interest of 6 percent or more on their debt.

The caveat, of course, is that once you pay down debt — even a revolving line of credit — you never know for sure if you'll be able to access it again if times turn tough. That's when the "cash is king" mantra really lives up to its billing, and it's why almost every company should maintain some cash reserves if possible, with safety of principal taking precedence over maximizing returns.