Why is it a problem to have too much cash in the bank?

Whether you had an inheritance, a recent windfall of cash, or you simply have been earning more than you spend, you might have too much cash in the bank.

It's a great problem to have and there are plenty of solutions available.

In this article we will explain why letting your money accumulate in a bank account will be detrimental to your financial future.

The main reason is that holding cash in an account with no interest, is that it doesn't keep up with inflation.

Over time, that money will be worth less and less and will have weaker spending power. That is why you need to put that money to work, investing it so that it grows.

What's the difference between saving and investing?

Savings is money that is in a liquid account like a checking account, a savings account or a money market account where it will be safe and accessible. That is what we are referring to when we say "cash in the bank."

Investing is when you buy an asset in the hope that it will appreciate in value, like stocks, bonds and real estate.

How much should you have in liquid cash or savings?

It is good to have some cash on hand where it is accessible, because that is your emergency fund.

An emergency fund is there so that you don't have to resort to using a credit card every time something comes up, like a car repair, a medical bill, household repair, or a job loss.

The consensus among financial experts is that you should have enough in your emergency fund to cover all expenses for three to nine months.

In order to come up with that number you will have to estimate your monthly spending.

If you don't know how much you spend on things like food, transportation, entertainment, utilities, debt, gasoline, pets, medical bills and other things, now is a good time to find out. Simply keep track for a month or two, or go back and look at your bank statements and add it up. The good thing about doing this exercise is you can create a budget while you are at it and find areas where you may be spending too much and you can make a plan to save a little more each month.

According to the 2020 FP Canada Cross Country Checkup survey, two out of five Canadians rarely or never put money aside for an emergency fund. And according to The Pew Charitable Trusts nearly half of American families don't have enough to cover a surprise expense of $2,000.

On the other extreme, there are people who have more than they need in their savings accounts and that money will not get a return on investment.

Once you know how much your monthly living expenses are, keep one month's worth in your checking account and keep the rest of the emergency fund in a savings account or money market account that earns interest.

How much money is left?

Use that money to grow your wealth so that you can meet your financial goals.

Two easy ways to make your saved up money work harder for you.

1) **Invest in real estate.** Real estate is a reliable and safe way to grow wealth, because the value of properties generally goes up. What type of real estate you buy depends on your goals. For example, if you want to focus on cash flow, owning a rental property will accomplish that goal. If you want an asset that will appreciate, you can buy a property in a depressed area where you have reason to believe that it will increase in value, and you have a plan for how you can improve it. If you want to have all the benefits of investing in real estate without the headaches or the hassles that come with a hands-on approach, you can explore passive real estate investing opportunities-basically finding someone who has already done it successfully and partnering with them.
2) **High performing index funds.** Do index funds work? On January 1st 2008, Warren Buffet issued a challenge (and a bet of $1 Million) to hedge fund managers around the world that they could not put together a portfolio that would beat the S&P Index Fund over a ten year period. The reason that he made this highly public bet was that he believed that hedge funds charge exorbitant fees and don't perform well enough to justify the costs. Protégé Partners LLC rose to the challenge and put together a portfolio of five carefully selected funds. Buffet, meanwhile, put his money in the Vanguard Admiral Shares S&P 500 Index Fund **(NASDAQ:VFIAX-O).** The hedge fund manager not only conceded defeat before the scheduled end date of December 17,

2018, but he also quit the fund and wrote, "for all intents and purposes, the game is over. I lost." While the first year the index fund lost more money than the hedge fund, it earned more every other year. In the end the index fund gained a total of $854,000, or 7.1% per year, while Protégé's picks only gained 2.2% per year for – just $220,000 in total.

At BG Wealth Group, we pride ourselves on guiding our clients with the right strategies at the right time. Are you ready to begin making your cash work harder for you? Schedule a call with us here.