

# Some Thoughts About Allocating to Cash

✘ One of the Briefly Noted columns appearing in next month's *AII Journal* will give tips on what to do during each of the five years leading up to retirement. In the column, we reference AII founder James Cloonan's Level3 withdrawal rules. Among those rules is allocating an amount equivalent to two to four years of planned withdrawals in so-called safe investments, otherwise known as cash equivalents.

CASH CAN PLAY  
A ROLE IN A  
PORTFOLIO'S  
ALLOCATION



Allocating to cash—and equivalents such as certificates of deposit (CDs) and Treasury bills—won't make you rich. It will also reduce your purchasing power—the ability to buy goods and services with the money you have—over time because of inflation. What cash does provide is a source of safety and liquidity. When an emergency occurs or things go haywire in the stock market, having access to cash can come in handy. This need for liquidity and safety should be balanced with the need for portfolio growth.

Cash can also help you handle more risk in your overall portfolio. Financially, it protects you from having to sell securities at depressed prices when the market is down. Psychologically, it can give you the confidence of knowing that, no matter what happens in the market, your shorter-term expenses are covered.

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## AII Model Portfolio Update

No changes were made to the [Model Shadow Stock Portfolio](#) this month. The next quarterly review will take place at the end of August.

The AII Model Shadow Stock Portfolio, which is a real-money portfolio of micro-cap value stocks, gained 2.35% in June. The Vanguard Small Cap Index fund ([NAESX](#)) added 0.72% for the month, and the DFA U.S. Micro Cap fund ([DFSCX](#)) gained 1.40% in June.

Since its inception in 1993, the AII Model Shadow Stock Portfolio has a compound annual average return of 15.6% versus the Vanguard 500 Index fund's ([VFINX](#)) gain of 9.4% per year on average. Over the same period, the Vanguard Small Cap Index fund ([NAESX](#)) posted an average annual gain of 10.4%.

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## More on AII.com

- [The Level3 Withdrawal Strategy to Maximize Your Long-Term Wealth](#) - AII president John Bajkowski explains how to implement AII founder James Cloonan's withdrawal strategy.
  - [Using Cash and Short-Term Bonds to Avoid Taking Losses in Retirement](#) - Jane Bryant Quinn suggests that retirees hold two to three years of expenses in cash and an additional two years in short-term bonds.
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## Highlights from this month's *AII Journal*

- [Following the Model Shadow Stock Portfolio](#) - This month's AII InvestoGraphic explains, in simple terms, how to mimic our model portfolio in your own brokerage account.
  - [Increasing Your Retirement Resources: The Power of Working Longer](#) - Postponing retirement by even just one year can boost a couple's annual inflation-adjusted retirement income by 6.5% to 8.0%.
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## AAll Sentiment Survey

Neutral sentiment rebounded strongly, rising to both a two-month high and an unusually high level. [More about this week's results.](#)

### This week's results:

- Bullish: 34.7%, down 8.4 points
- Neutral: 40.4%, up 12.6 points
- Bearish: 24.9%, down 4.2 points

### Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the [Sentiment Survey](#).

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## What's Trending on AAll

1. [Using Cash and Short-Term Bonds to Avoid Taking Losses in Retirement](#)
  2. [For Bucket Portfolios, the Devil Is in the Details](#)
  3. [A Simple Formula for Calculating "Safe" Retirement Spending](#)
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## The Week Ahead

The earnings floodgates are going to deluge the market next week with 182 members of the S&P 500 index scheduled to report. Included in this group are 11 Dow Jones industrial average components: 3M Co. (**MMM**), United Technologies Corp. (**UTX**) and Verizon Communications Inc. (**VZ**) on Tuesday; Boeing Co. (**BA**), Coca-Cola Co. (**KO**) and Visa Inc. (**V**) on Wednesday; Intel Corp. (**INTC**) and McDonald's Corp. (**MCD**) on Thursday; and Chevron Corp. (**CVX**), Exxon Mobil Corp. (**XOM**) and Merck & Co. Inc. (**MRK**) on Friday.

The week's first economic report will be June existing home sales, which will be released on Monday.

Tuesday will feature the July Purchasing Managers' Index (PMI) Composite Flash. June new home sales will be released on Wednesday. Thursday will feature June durable goods orders and June international trade. Friday will feature the first estimate of second-quarter gross domestic product (GDP) and the University of Michigan's final July consumer sentiment survey.

The Treasury Department will auction \$35 billion of two-year notes Tuesday, \$18 billion of two-year floating rate notes and \$36 billion of five-year notes Wednesday and \$30 billion of seven-year notes Thursday.

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## Local Chapter Meetings

AAII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AAIL members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

[Upcoming Meetings »](#)

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## More AAIL Resources

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OCTOBER 26 – 28, 2018 • LAS VEGAS, NV



KEYNOTE SPEAKER



**Harold Pollack**

*Author and Professor,  
University of Chicago*

**“The Index Card Guide  
to Personal Finance”**

KEYNOTE SPEAKER



**Mark Hulbert**

*Hulbert Ratings LLC*

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*Senior Financial Analyst, AAll*

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**Craig Israelsen, Ph.D.**  
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