# WHERE TO STASH YOUR CASH 7 STEPS TO SAFETY IN A BEAR MARKET

With the market nearing historic lows, the sound advice is to move at least part of your portfolio to cash and sit out the worst of it on the sidelines.

But right now moving to cash is easier said than done. Yields are below low.

Follow these 7 steps for safely diversifying into cash while you wait out the Bear.

## 1 Know Your Goals And Stick To Them.

Here's what to aim for:

- **First, safety, safety, safety.** This bear market is, in my opinion, just getting warmed up. A bear getting all fat and sassy on a potential recession, 8% inflation, and rising interest rates almost certainly isn't done at 20% down.
- **Second, the best possible yield.** I don't think it's possible (with two exceptions I'll note later) to beat the current 8.6% annual inflation rate and hold to a safety-first stance. You're not going to be in cash forever, however, so losing a bit of ground to inflation isn't a deal-breaker on any cash vehicle.
- **Third, liquidity**. I think you should plan to be buying stock market bargains in late 2023 or in 2024. Which means that you'll want to be able to exit any cash vehicle without a substantial penalty and with reasonable ease within that time period.

## 2 Use Short-Term Treasuries For The Bulk Of Your Cash.

- Buy a 6-month Treasury bill and the yield as of July 1, is 2.44%. (Go to the trouble of setting up a Treasury Direct account.) Why the 6-month bill? Why not go shorter or longer? I think 6 months is just about when you might want to get access to your cash so that you can do some bargain hunting.
- Buy the Treasury itself instead of an ETF that holds Treasuries. That way when the Treasury matures, you are guaranteed to get back your original capital. An ETF, since it constantly rolls over its holdings, never actually matures.

## 3 Online Savings Accounts And ETFs Can Be Useful.

Online savings accounts and ETFs offer safety but really low yields. They're a good pick, though, if you think you'll need liquidity. Right now you can get online savings account like that offered by Goldman Sachs (Marcus) or Ally Financial that pays 0.85% and 0.9%, respectively. whenever you see a sell off.

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## Go Out A Little Longer...

Go out longer and **add some 6-month CDs to the mix.** A 6-month CD at Marcus from Goldman Sachs will get you a yield of 1.6%. Make sure, if liquidity is near the top of your priorities, to get a CD that doesn't charge a penalty for withdrawing your cash before it matures.

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## Add Some Exposure to Outliers.

Add some exposure to outliers, i.e., investments that will give you a much higher return than average. I've got two to suggest:

- **The Series I U.S. Savings Bond** currently pays 9.62%. But there's a significant trade-off between higher yield and liquidity here. An individual can't put more than $10,000 a year into I-bonds. And you can't cash out the I-bond for at least one year. If you cash out before five years, you lose the previous three months of interest.
- U.S. oil and natural gas producer **Pioneer Natural Resources (PXD) is forecast to pay a dividend of more than 11% over the next year.** The company's dividend payout formula now combines a set yield and a variable yield that depends on the company's cash flow. At $100 a barrel oil (and oil was trading at $108.43 on July 1) the company would produce an annual total dividend payout of $27 a share, or 11.92%. Here the trade-off is higher yield but higher risk. If the price of oil drops back below $100 a barrel as slowing global economies reduce petroleum demand, Pioneer Natural Resources shares would tumble. The shares were up 29.26% for 2022 to date as of the close on July 1. But in the last three months, the shares have dropped 19.39%

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## Want To Take A Little More Risk?

**Buy a corporate bond ETF.** Here I would recommend an ETF such as the Vanguard Short-term Corporate Bond ETF (VCSH). The yield was 3.6% on July 1 but even buying short-term corporate bonds exposes you to market risk. The ETF is down 5.00% for 2022 to date as of the close on July 1.

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## Consider Blue Chips That Pay Dividends.

You can also get higher yields and a reasonable degree of safety with **Blue Chip Big Pharma stocks.** Pfizer (PFE) and Merck (MRK) pay dividends of 3.06% and 3.03%, respectively, as of July 1, and AbbVie (ABBV) pays 3.67%. These stocks have held up relatively well in the Bear Market to date but an extended bear will take down the prices of these shares too.