



Are you protecting your purchasing power?

Cash Management Options for Business Owners

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When the Great Recession of 2008 took place, the Federal Reserve took drastic steps to fight “depressionary” forces in order to bring confidence and stability back into the economy. This event forced business owners to re-evaluate their risk parameters and business plan in order to weather the storm. Fast forward to today and many owners are finding their businesses profitable once again, which has led to an increase in their corporate cash balances.

Historically, cash has typically generated enough yield to preserve purchasing power, but this time has been different. With interest rates held at historically low levels, holders of cash have potentially seen their purchasing power decrease as much as 15%* over the previous 8 years. However, as central bankers begin their journey towards normalizing interest rates, business owners are presented with the opportunity to capitalize on their cash deposits once again.

Whether the cash is earmarked for reinvestment plans, liquidity events, or personal diversification, your cash holdings need to be working for you as hard as you have worked to earn them. Through our experience the below options have been appropriate strategies that not only preserve principal and maintain flexibility, but also generate incremental yield on your cash holdings.

Money Market Funds

With an average yield between 0.3% - 0.5%, Money Market Funds are beginning to generate income for investors once again. However, for the past 8 years fund companies have mostly eliminated management fees and until these fees normalize, Money Market Funds are predicted to underperform comparable strategies.

Certificate of Deposits (CDs)

Possibly the most familiar option, CDs have been a popular route for savers and are starting to come back into favor. Unfortunately, rates are still significantly below the 5% rates experienced in the early 2000s. For example, the national average interest rate for a 3-year jumbo CD (greater than \$100,000) is 0.57%**.



As banks run promotional deals, CDs can be purchased with above average rates. However, if you need to cash in early on one of these promotional deals, higher rates may lead to additional liquidity penalties beyond the traditional 3 months' worth of interest.

Investment Grade Laddered Bond Portfolio

Often implemented by larger corporations, an investment grade laddered bond portfolio involves purchasing high quality corporate bonds that mature in an orderly chronological fashion. If you were to visualize a ladder, each rung represents a date when a set of bonds matures, thus creating a continuous liquidity stream to the business or for reinvestment. Though minimal, the downside to this strategy is possible principal loss when liquidating the bonds prior to maturity during a period of high interest rate volatility.

The advantage to this cash management option is its high degree of liquidity and flexibility, as the laddered portfolio can be tailored to the company's specific cash needs. With the current interest rate environment, this structure has the potential to produce a gross yield between 1.4%-1.6%, with bonds starting to mature 6 months from the purchase date.

Many large banking institutions offer Laddered Bond Portfolios within their cash management programs. However, a major hurdle for business owners has been accessing these programs, which often require a minimum investment of \$8,000,000 or more.

A Tailored Cash Management Solution for your Business

Recognizing the need to generate yield for our client's business accounts, Corbenic has created a Laddered Bond Portfolio tailored for business owners at minimums much lower than large financial institutions, but with similar returns.

As a business owner, it is important to position all assets in the most profitable structure while maintaining the integrity of their specific purpose. Cash management has been a struggle for many years but options are available to help preserve purchasing power while maintaining the necessary flexibility to grow and strengthen your business.

To learn more about the options available for your business [visit us online](#) or contact us directly, 610.814.2472.

*Compound CPI rate between 2008-2016

**National average CD rate calculated by FDIC



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