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PERSONAL FINANCE

Stashing Cash In a Low-Interest World

Many wonder where to find the best place for their savings

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By *Julia Carpenter*

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Many Americans are saving more than ever before during the pandemic, but the Federal Reserve's long-term low rates have many wondering: Where is the best place to store cash?

"We're already seeing many of these major online banks hit all-time [interest rate] lows," said Ken Tumin, founder and editor of DepositAccounts.com. "This shows you how severe this new environment is, how it suppresses savings accounts."

Competition to gain customers and deposits has softened. High-yield savings accounts that once drew customers with yields higher than 2% now typically offer rates as low as 0.6%. That is well above the national average for traditional savings accounts of 0.05%, according to the FDIC, but is still a meager return.

So savers are considering other options. Looking for more yield, however, often means taking on more risk and sacrificing liquidity.

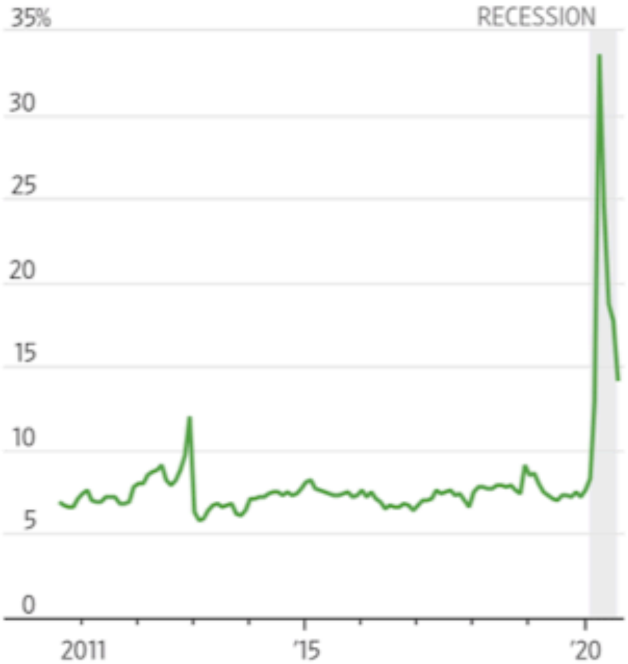
"Most people are looking for high-yield, low-risk options which are hard to find right now," said Nina O'Neal, investment adviser with Archer Investment Management. "Most money-market funds are going to be under 1%, and the pandemic combined with the political uncertainty—that's the biggest conversation we're having."

Ms. O'Neal recommends clients who are wary of taking on more risk in this climate instead consider giving priority to daily liquidity.

She said some clients don't want to take on more market risk, so they instead put part of their cash in a money-market fund and the rest in some fixed-income exchange-traded funds, or ETFs. Those provide a slightly higher yield, often between 1% and 2%, depending on the type of debt that comprises the fund.

This approach requires taking on more market risk than keeping money in a high-yield savings account, said Ms. O'Neal. Another issue: Fixed-income ETFs can trade out of sync with their underlying assets, as happened earlier this year. That means an investor looking to sell during market turmoil might have to accept a discount to the actual value of the debt that makes up the fund.

Personal saving as a percentage of disposable personal income



Source: Federal Reserve Bank of St. Louis

Money-market funds once offered much higher yields, but Blair duQuesnay, a financial planner at Ritholtz Management, said she now sees these offering less than 1%. The environment is such, she predicts, that people will be tempted to simply leave their cash in savings accounts even as rates drop. "You can't squeeze blood from a stone," she said.

For those looking for yields over 2% and liquidity, the options are limited, say some financial advisers.

"If you think you see something higher than 2%, with liquidity, be very careful—there's no silver bullet here," said Zach Abraham, chief investment officer at Bulwark Capital Management.

Mr. Abraham said he has seen some people think outside traditional options, looking instead at accounts with transactional requirements such as balance thresholds or debit-card usage. Credit unions sometimes offer higher yields for these accounts—some as high as 0.8%—but most are likely to be below 1%.

Other advisers are looking to help clients extend their timelines, making options like fixed annuities and longer-term certificates of deposit, or CDs, an option, said Charlotte Geletka, managing partner at Silver Penny Financial. She has seen some insurance companies offer 2% on a three-year, fixed-rate annuity.

"There is a strong desire to put your money to work," she said. "But there's a lot of people chasing yield without considering the goal. The goal is more important than the yield."

Mr. Abraham said he has spoken with clients about moving cash to CDs that fit their timeline. As of October 2020, the national average rate for 2-year CDs is 0.23% according to the FDIC.