The Cash Conundrum

Could large cash holdings have sizable impacts on future wealth?

The Cash Conundrum

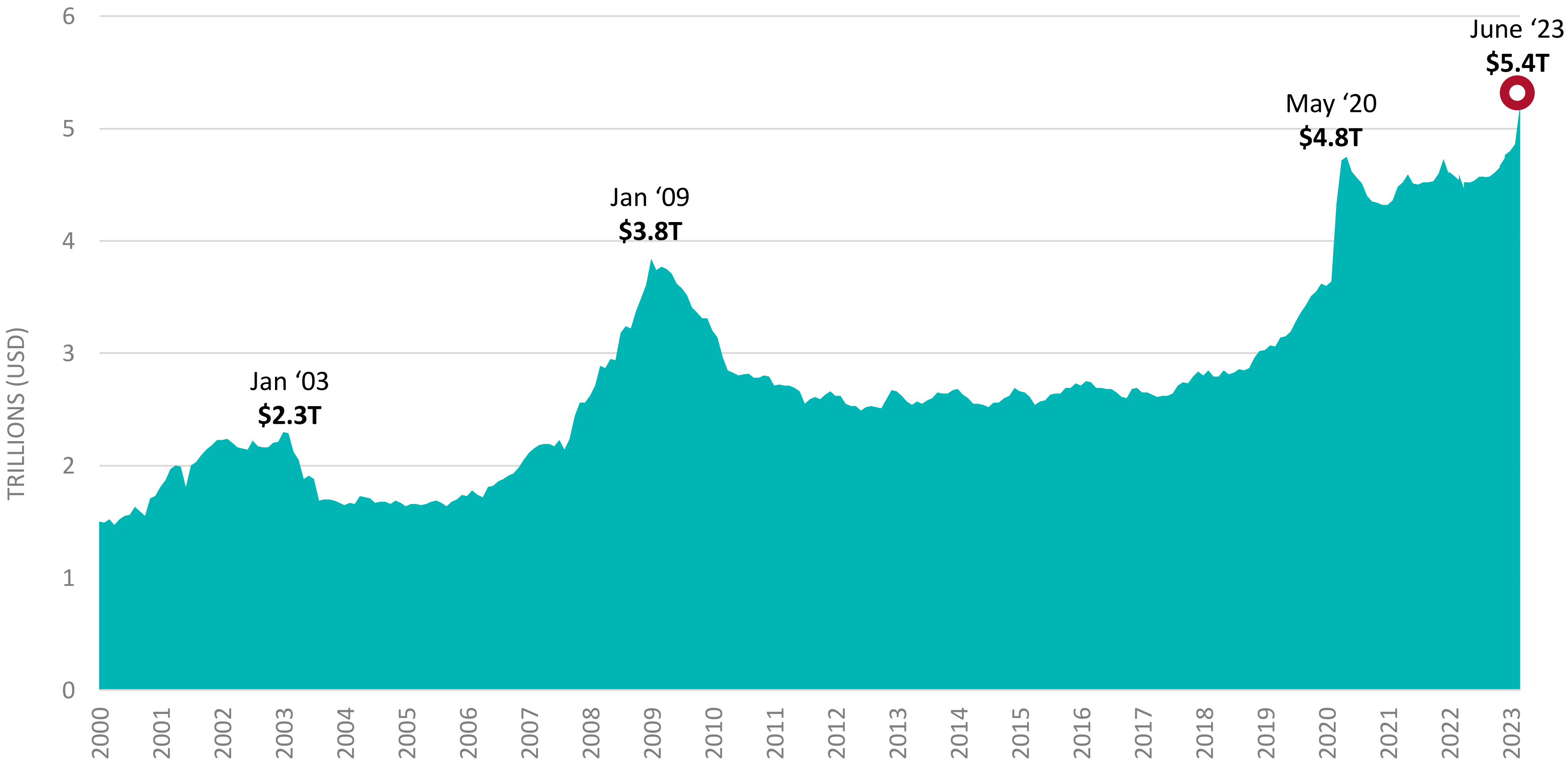
Conundrum: *"a confusing and difficult problem or question"*

Cash balances at record high levels since the pandemic

4–5% yields have lured investors to hold **even more** cash

Holding cash, especially for extended periods of time, can come at a big cost

Money Market Assets



Source: Morningstar. Data as of 6/30/23.

Cash drag can add up quickly

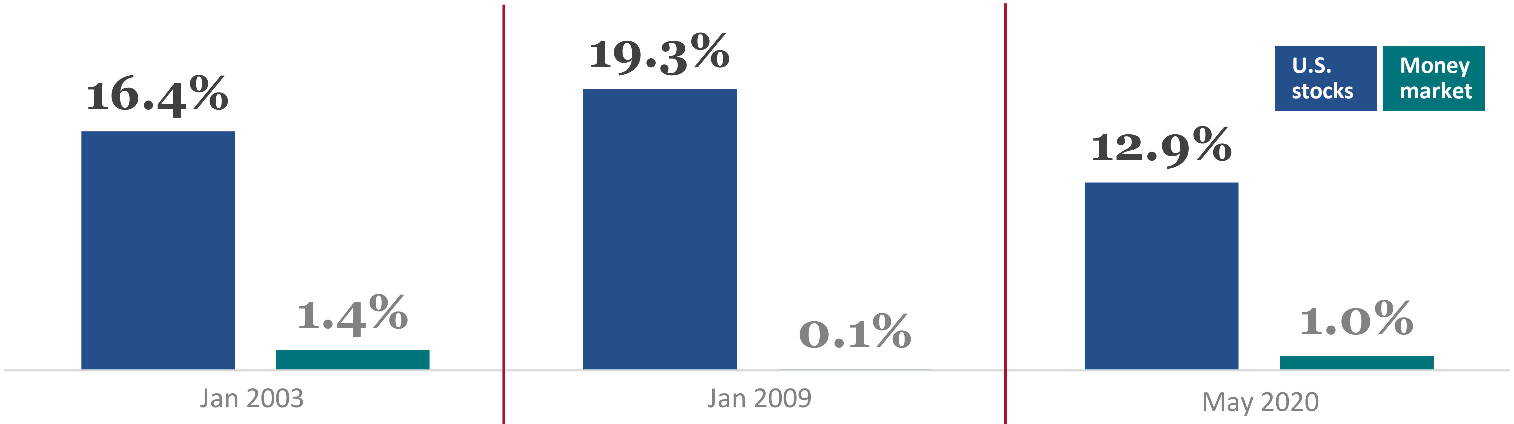
Recent peaks in money market assets

Jan 2003	**$2.3T**
Jan 2009	**$3.8T**
May 2020	**$4.8T**
June 2023	**$5.4T**

3-year performance following a peak in money market fund assets

Average annual performance

10.2%
U.S. stocks avg since 1926



	Growth of $1 million (ending assets)		
U.S. stocks	$1,577,099	$1,697,936	$1,439,900
Money market	$1,042,591	$1,003,003	$1,030,600
Difference	**$534,508**	**$694,933**	**$409,300**

Source: Morningstar, Blackrock Student of the Markets, Lincoln Financial Group. 3- year returns calculated from end of peak month listed. US Stocks = S&P 500 TR; Money Market = Morningstar taxable money market category average returns **Past performance does not guarantee or predict future performance.**

Investors fled while markets rallied

$111B

Net Outflows

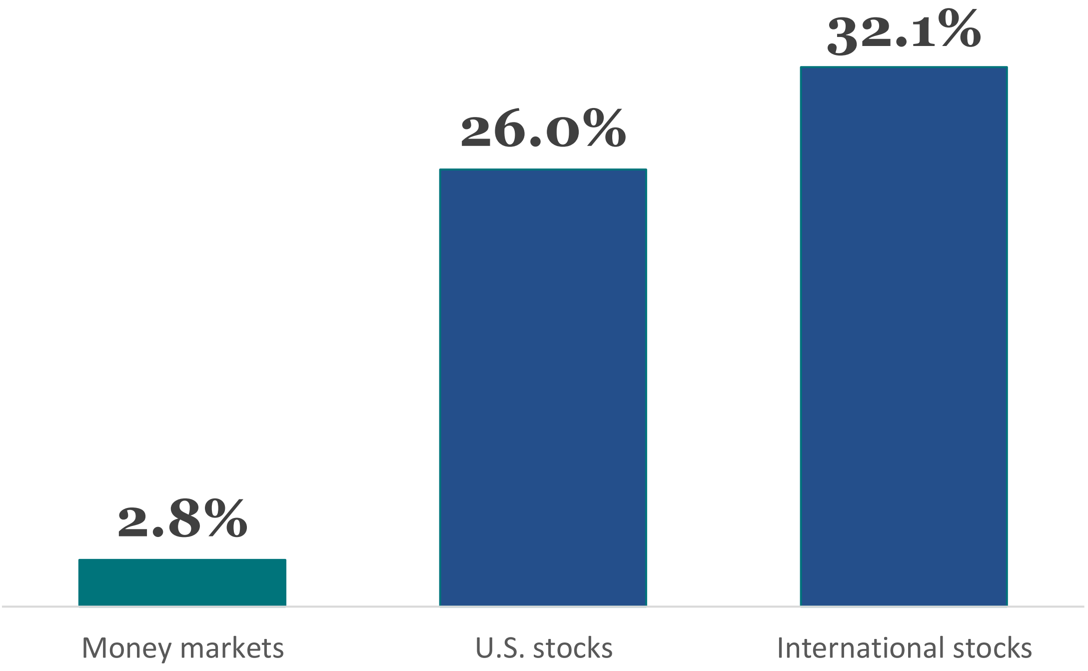
US & Int'l Equity
10/1/22 – 6/30/23

$751B

Net Inflows

Money Market
10/1/22 – 6/30/23

Performance since the low in U.S. stocks last year
(10/13/22 – 6/30/23)



Source: Morningstar estimated net flows of U.S. open-end mutual funds, ETFs and money market funds as of 6/30/23. Source for returns: Morningstar. Indices for returns: International stocks = MSCI EAFE NR, US Stocks = S&P 500 TR; Money market = average return of Morningstar category US Fund Money Market- Taxable. **Past performance does not guarantee or predict future performance.**

Three reasons to invest with confidence

1

The odds of cash underperforming are high

2

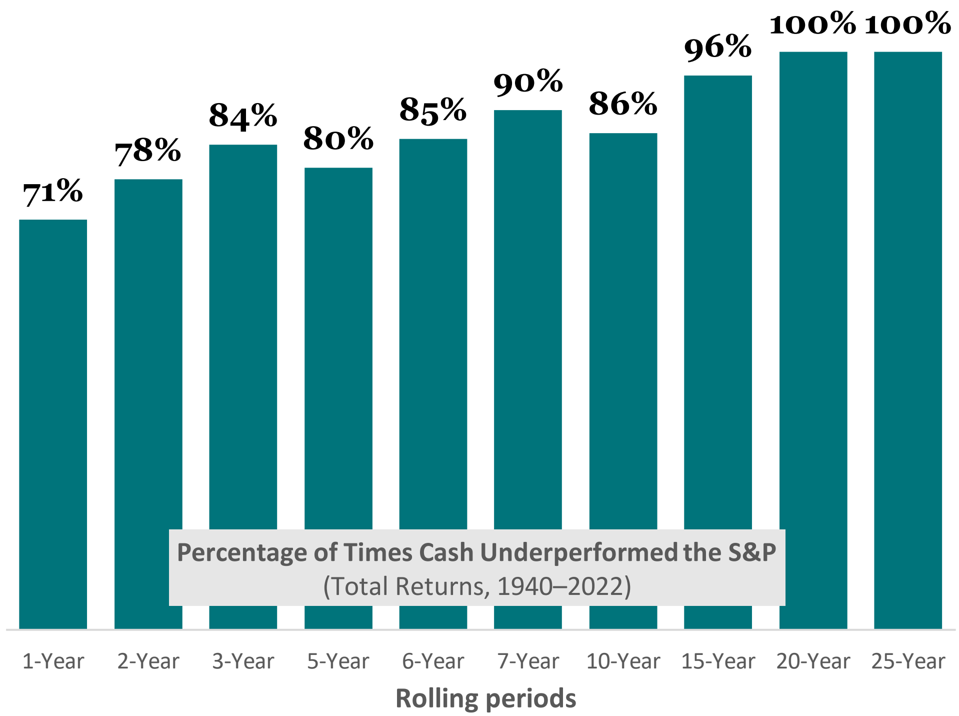
It's always a good time to invest

3

Markets lead the economy, so buy and hold is usually best

The odds of cash underperforming are high

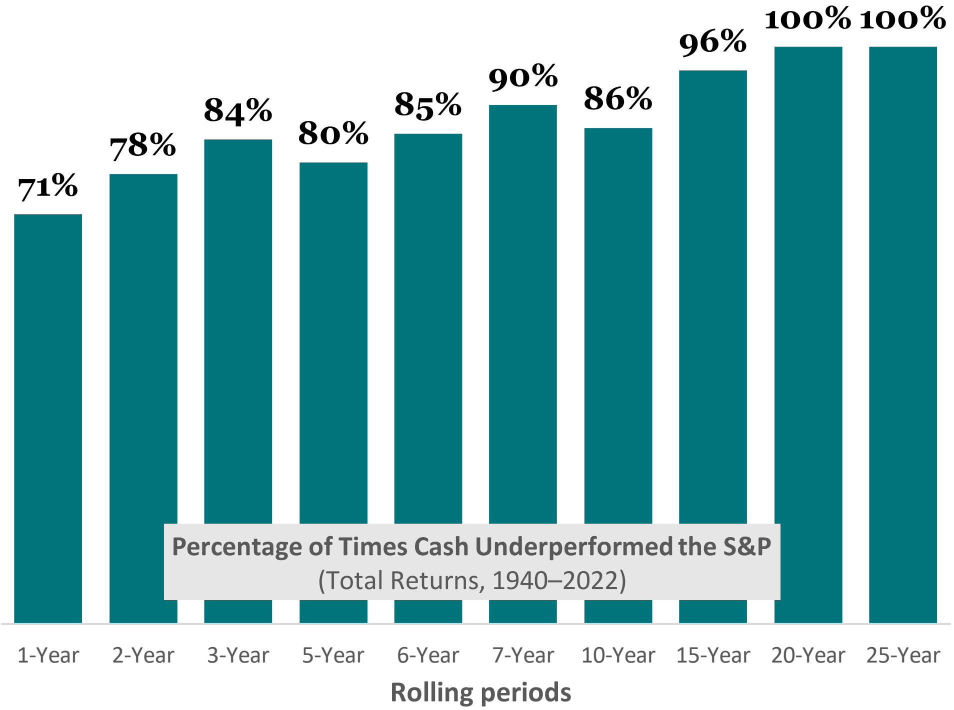
How often cash underperforms...



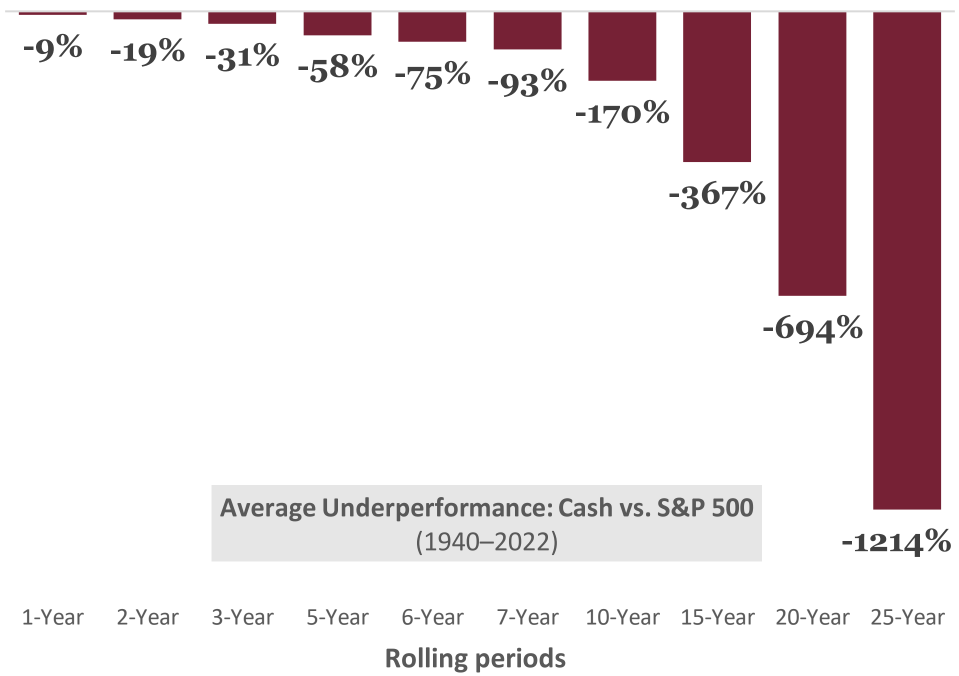
Source: NYU.edu, Lincoln Financial Group. Rolling periods with a 1-year step. Cash proxy = average 3-month Treasury Bill rate in each calendar year.

The odds of cash underperforming are high

How often cash underperforms...



...and by how much on average



Source: NYU.edu, Lincoln Financial Group. Rolling periods with a 1-year step. Cash proxy = average 3-month Treasury Bill rate in each calendar year.

Despite the headlines...

Year	Worrisome Event
2000	Tech wreck; bubble bursts
2001	September 11
2002	Dot-com bubble: market down –49%
2003	War on Terror – U.S. invades Iraq
2004	Boxing Day Tsunami kills 225,000+ in Southeast Asia
2005	Hurricane Katrina
2006	Not a bad year, but Pluto demoted from planet status
2007	Sub-prime blows up
2008	Global Financial Crisis; bank failures
2009	GFC: market down –56%; depths of despair
2010	Flash crash; BP oil spill; QE1 ends
2011	S&P downgrades U.S. debt; 50% write-down of Greek debt
2012	2nd Greek bailout; existential threat to Euro
2013	Taper Tantrum
2014	Ebola epidemic; Russia annexes Crimea
2015	Global deflation scare; China FX devaluation
2016	Brexit vote; U.S. election
2017	Fed rate hikes; North Korea tensions
2018	Trade war; February-inflation scare
2019	Trade war, impeachment inquiry, global growth slowdown
2020	Covid-19 pandemic, U.S. presidential election
2021	Omicron variant, China regulatory crackdown
2022	Russia invasion of Ukraine, inflation hits 40-year high
2023	Fed rate hikes; regional bank failures, recession concerns

Source: J.P. Morgan Private Bank for events 2000-2021, Lincoln Financial Group for 2022 and 2023. [1]Cumulative total returns for S&P 500 are calculated from December 31 of the year prior to May 31, 2023, sourced from Morningstar

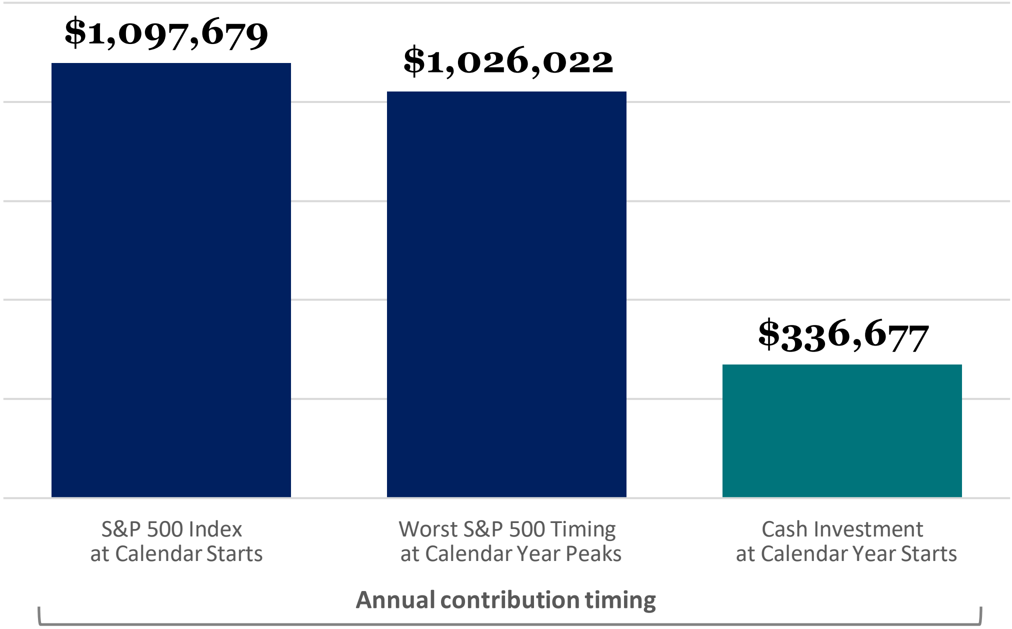
Despite the headlines…

Year	Worrisome Event	Cumulative Returns[1]
2000	Tech wreck; bubble bursts	**372.9%**
2001	September 11	**420.3%**
2002	Dot-com bubble: market down –49%	**490.5%**
2003	War on Terror – U.S. invades Iraq	**658.0%**
2004	Boxing Day Tsunami kills 225,000+ in Southeast Asia	**489.0%**
2005	Hurricane Katrina	**431.2%**
2006	Not a bad year, but Pluto demoted from planet status	**406.4%**
2007	Sub-prime blows up	**337.3%**
2008	Global Financial Crisis; bank failures	**314.5%**
2009	GFC: market down –56%; depths of despair	**557.9%**
2010	Flash crash; BP oil spill; QE1 ends	**420.3%**
2011	S&P downgrades U.S. debt; 50% write-down of Greek debt	**352.2%**
2012	2nd Greek bailout; existential threat to Euro	**342.8%**
2013	Taper Tantrum	**281.7%**
2014	Ebola epidemic; Russia annexes Crimea	**188.3%**
2015	Global deflation scare; China FX devaluation	**153.6%**
2016	Brexit vote; U.S. election	**150.2%**
2017	Fed rate hikes; North Korea tensions	**123.4%**
2018	Trade war; February-inflation scare	**83.4%**
2019	Trade war, impeachment inquiry, global growth slowdown	**91.8%**
2020	Covid-19 pandemic, U.S. presidential election	**45.9%**
2021	Omicron variant, China regulatory crackdown	**23.2%**
2022	Russia invasion of Ukraine, inflation hits 40-year high	**(4.2%)**
2023	Fed rate hikes; regional bank failures, recession concerns	**16.9% YTD**

Source: J.P. Morgan Private Bank for events 2000-2021, Lincoln Financial Group for 2022 and 2023. [1]Cumulative total returns for S&P 500 are calculated from December 31 of the year prior to June 30, 2023, sourced from Morningstar

…it's always a good time to invest!

Hypothetical portfolio value with $12k annual contributions
(2000 – June 2023)



Source: Bloomberg, Federal Reserve Bank of St Louis, Lincoln Financial Group as of June 30, 2023. S&P 500 total return index used. 3-month U.S. Treasury Bill used as a proxy for cash investment.

Markets lead the economy, so buy and hold is usually best

Recession timers | **Buy & hold**

	Investor 1 "World's Best" Recession Timer	Investor 2 & 3 "Close but no Cigar" Recession Timers		Investor 4 Buy & Hold Investor
Recession Timing Scenarios (1940–2022)	**Sold at Start of Each Recession, Bought at End of Each Recession**	**Sold 3-Months Before Each Recession, Bought 3-Months After Each Recession**	**Sold 1-Year Before Each Recession, Bought 1-Year After Each Recession**	**Bought Jan 1, 1940, Held thru Dec 31, 2022**
S&P 500 Price Return (Annualized)	7.1%	6.6%	5.4%	7.1%

The buy and hold investor had the same exact return as the perfect recession timer

—and without the anxiety of trying to time the market!

Source: Bloomberg, Federal Reserve Bank of St. Louis, Lincoln Financial Group. S&P 500 Price Return index from 1940-2022. Does not include dividends.
[1]Capital Group, Federal Reserve Board, Haver Analytics, National Bureau of Economic Research (NBER), RIMES, Standard and Poor's. Data reflects the average of completed cycles in the U.S. from 1950 to 2021.
[2]Morningstar, NBER. Cumulative return measured from max drawdown date of each of the last 5 recessions until the release of the business cycle dating committee announcement retrospectively determining the trough in U.S. economic activity.

Safety Without Avoiding Growth

Cash balances are soaring.

Investors seeking the perceived safety of cash could miss most (or all) market growth.

Growth potential is crucial.

Headlines can keep investors on the sidelines, but the odds of cash underperforming are high.

Protection builds confidence.

Adding solutions with built-in protection can help investors remain focused on their long-term goals.

It's all about **safety—without avoiding growth**!

Let's discuss some options today!

For use with the general public.

Thank you.

Disclosures

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