ASK THE **ADVISERS**

The views and opinions expressed in “Ask the Advisers” are solely those of Keith Singer.

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Is Liquidity Overvalued?

I have many clients that are “liquidity hoarders”. They need to know they can “cash out” all their assets at a moment’s notice. Many people feel like they have more control over their investments if they can cash out at any time. I have never had a client that needed to cash out their entire life savings all at once.

Since most people are willing to pay a premium for liquid assets, it is generally more expensive to acquire investments that are fully liquid. Publicly traded stocks trade at a much higher multiple than private companies. But is liquidity really that important?

When the economy is doing well and investments are appreciating in value, the demand to sell is relatively low. When there is an economic crisis and the stock market is plummeting and investors are panicking, a lot of people want to sell so they can stop losing money. If there is one thing history has demonstrated, the worst time to unload investments is when the market has crashed because so many people are trying to sell.

Disciplined investors know not to sell after market corrections and the best investors are the ones that are bravely buying when everyone else is selling. Those who invest in publicly traded securities are essentially paying a premium for the right to sell their investments at the worst possible time.

Conversely, those who make allocations to private investments, that are not publicly traded, not only will often get a better value on their investments but they will most likely not be able to sell their investments during or just after an economic crisis. They will essentially be forced to hold on to their investments until markets stabilize.

Obviously, it’s important to have some assets that are safe and liquid to cover short term cash needs. However, once those needs are met investors should choose investments with better expected return regardless of an investment’s liquidity.
