# ASK THE **ADVISERS**

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


## Singer Wealth

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## Liquidity Can be Expensive

I have several clients that crave liquidity on their investments because they are afraid of "locking up" their money. Many of my clients are "liquidity hoarders." They cling to so much more liquidity than they need to meet their financial objectives and they are paying a potentially high price for something that provides them with no benefit.

Liquidity is a feature that most people value. When something has value people are willing to pay extra for it. For instance, when you invest in the S&P 500 index you are investing in a diversified basket of publicly traded stocks. You can instantly get your money back at the prevailing price. Currently, you are paying about 20 times the earnings for those stocks. However, if you were to invest in private companies through a private equity fund, you would likely pay a fraction of that multiple which is one of the reasons why private equity has traditionally outperformed public equity funds. Publicly traded REITs historically offer a lower yield than private real estate. Similarly, multiyear guaranteed annuities typically pay higher rates than their more liquid CD counterparts.

Another disadvantage of liquidity, besides reduced returns, is higher volatility. Publicly traded stocks, bonds, and REITS can be sold immediately under all market conditions. However, when bad news emerges about a stock or the economy in general, more people want to sell than buy. When this happens, the price can drop dramatically. When stock prices begin to fall rapidly, many investors tend to want to sell to protect against further losses which can exacerbate market volatility.

History has proven that the worst time to sell is after stocks have fallen rapidly. Some investors may add bonds and cash to their portfolio to reduce the unwanted volatility but that will only further reduce the expected returns. If you are looking to increase your returns and reduce the volatility of your portfolio, consider adding alternative investments which may provide less liquidity. This is especially true in retirement accounts, which are almost always most people's longest-term money.