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### **Utility of Cash in the Current Market Environment**

As the overall market continues its historic run, we believe it prudent to touch upon the topic of cash. With many equity valuations seemingly decoupled from fundamental data, we are comfortable holding a larger cash balance in portfolios at this time.

Cash is broadly viewed as a deterrent to investment portfolio performance compared to other assets. This negative perspective is magnified in our current market environment as equity valuations climb almost daily. Every investor recognizes that cash offers liquidity and thereby financial flexibility. Today this flexibility to strategically deploy cash on market weakness, outweighs paying the current premium for many equity names.

Another relevant risk topic that has resurfaced lately is inflation. Current interest rate policy combined with repeated massive fiscal stimulus packages; are foundational blocks an inflationary environment can build upon. Thoroughly outlined in GMO's Q2 2020 letter (see below) – unanticipated inflation may lead to a rise in interest rates, thereby negatively impacting the broader equity market.

It may seem counterintuitive to see cash as a hedge against inflation. Another way to view cash is an asset class that appreciates in nominal terms, but alone does not increase your net worth. Cash is useful to preserve your purchasing power. This purchasing power is realized when cash is deployed toward an investment in a quality company at a fair price. The famous Warren Buffett quote "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price" holds true today. Just like Mr. Buffett, David Tepper and other capital allocators we follow and respect – we do not see many quality companies trading at fair prices today.

For additional information and data points, we recommend reading the GMO quarterly letter article on navigating today's low interest rate environment. A direct hyperlink to the article can be found [HERE](#) and at the bottom of this page. It provides an excellent in-depth analysis of the historical impact of inflation and evaluates alternative investment income vehicles.

<https://www.gmo.com/americas/research-library/2q-2020-gmo-quarterly-letter/>