Hello Everyone,

"Cash is king." Billionaire property developer Alex Spanos

"Cash is trash." Billionaire hedge fund manager Ray Dalio

So which billionaire is right? I guess it depends on when.

Today's missive looks at cash. What prompted today's subject was a video released by the FDIC. The link is below…and it takes only 57 seconds to watch.

https://www.youtube.com/watch?v=jdjzIaEDTnw

I believe Ms. McWilliams wanted to calm people down. It made me a little nervous…but I have an elevated suspicion of authority anyway. :>)

Signed, Your First-Full-Weekend-Of-Baseball-Would-Have-Been-Starting-Tomorrow Financial Advisor,

Greg

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Bob: So, Greg, when I saw your subject for today, I thought, "Well, OK. But, this doesn't seem very exciting". You want to talk about cash. Right?

Greg: I do. And, you're right. Cash isn't as exciting as some new technology stock.

Or, is it?

Let's start with a rather odd video FDIC Chair Jelena McWilliams posted last week.

Picture this.

As comforting piano music plays, we see Ms. McWilliams standing in front of the FDIC logo and an American flag. She is wearing a tasteful business suit. She says, *"….your money is safe at the banks. The last thing you should be doing is pulling your money out of the banks now."*

Whoa! Where did that come from?

Let me ask this--- is it a reach to conclude the FDIC Chair is concerned Covid19-related bankruptcies could ripple to the banks? And, if the masses get worried, might they panic (?)…and then race for cash the way they raced for toilet paper.

Anyway, shortly after her video was released, we saw a spate of stories about how bad it was for people to "hoard" cash. So was this a case of coordinated messaging? Maybe.

Bob: OK. I get all that. But, how can I "hoard" something that is already mine? I mean, it's my money. And, it's not even earning interest. Plus, if interest rates go negative, I'll have to pay to keep money at the bank. So, actually, it's kind of logical to have some cash.

Greg: Exactly. But I am going to offer one small correction to what you just said.

Technically, and legally, the money you have at the bank is not yours.

Let me explain.

Under the provisions of the post-Lehman Dodd-Frank law, as soon as you deposit funds at your bank---or credit union--- those funds become the property of the financial institution. In short, you have legally given them your money to them to use as they wish.

So, Bob, let's pretend you get mad at the bank. After standing in line, you finally get to the window and loudly proclaim, ***"I demand my money!"*** The teller will probably smile and be polite. But you're wrong.

When you made your deposit, you became what is called a creditor. Thus, let's say the bank is failing, they can make good by giving you bank stock in lieu of your deposits.

Of course, who wants stock in a failing bank?

Oh, and yes, they did disclose this to you. Back in 2013, everyone got a disclosure letter written in tiny print explaining the changes. And all new account paperwork has the appropriate legal disclosures.

Bob: Well…there's a lot to digest here. But I still have FDIC insurance, right?

Greg: Yes, you do. And yes, I'm aware the FDIC is not fully funded. Still, the government can print all the money it needs to make good on the FDIC's promises. And, if banks fail…don't worry the FDIC will cover you.

Bob: OK. But, let's say I were rich enough to exceed FDIC limits. Couldn't I just put money in a money market account? They've always been safe.

Greg: Great thought…and many do this. But, be careful. Here's why. Short-term loans back most money markets. Those loans started to fail when Lehman collapsed in '08. Back then, the banks raced to shore them up; because a loss of confidence in money markets would have been epic.

Well guess what is happening now? Because of Covid19, we're seeing stress in money markets. Last week, an $18 billion Goldman Sachs, money market fund went to 30% liquidity. That's considered the danger zone. Uh oh.

Bob: OK. I'm putting it together. Some people are getting concerned about banks. They are withdrawing cash. No one wants a bank panic. That's probably why the FDIC Chair did that video. Right?

Greg: Let's just say this…many in my world are connecting those same dots. So, Bob, what did you learn today?

Bob: Well….

- My money isn't my money as soon as I put it in the bank.
- Money market accounts may not be as safe as I think they are.
- And, the subject of cash is kind of interesting after all.

How do people reach you?

Greg: My number is 250-3754. Or, go to my website at zanettifinancial.com.