

Cash and Savings

Domestic & Foreign Currency

On the cash side of the investment triangle there are several options available. What percentage a person feels comfortable setting aside depends entirely on their personal situation. One of our biggest concerns should be short-term safety and a financial strategy to protect ourselves from a falling U.S. dollar on world exchanges. The commercial banking system in the U.S. is thinly capitalized and poses a structural risk to all funds on deposit. According to the Federal Reserve, the net loan-to-deposit ratio is currently 90%. But this figure does not include corporate, municipal, and mortgage-backed bonds, which raises this figure to 125% or more! Put simply, bank lending is over-extended and depositors are given a false sense of security. The Federal Deposit Insurance Corporation guarantees each depositor (not individual deposit) up to \$100,000, but this promise is only as good as the so-called insurer. Most of the institutional funding for FDIC comes from member banks and the actual amount to cover losses is barely 50 cents for every \$100. In other words, the entire system has a risk exposure greater than 99%.

The greatest risks to the banking system include low liquidity levels, leveraged derivatives, collateralized mortgage loans against inflated property values, and overly optimistic safety ratings. The FDIC refers to its sticker prominently displayed at every bank teller window as "a symbol of confidence," and that is exactly what it is – a confidence game. Only the biggest banks in America have been bailed out, and in every instance the Fed has come to the rescue as a lender of last resort. It is important to know if your bank or financial institution is operating safely, and there are independent rating services that are available to the public. Veribanc, Inc. is the oldest rating service in America and covers 6,200 banks, savings and loans, and credit unions. You can call them at 1-800-44-BANKS or www.veribanc.com. IDC Financial Publishing, Inc. also offers quarterly reports on financial institutions and you can reach them at 1-800-525-5457 or www.idcfp.com. For immediate access to bank ratings you can go online at www.fitchratings.com and find a complete listing under "Financial Institutions," or call their New York office at 1-212-908-0500. These rating services can help you determine if your financial institution is a good place for cash and savings accounts.

The Office of the Comptroller of the Currency requires all banks to report their holdings in high-risk derivatives, which is now approaching a notional value in 2009 of almost \$700 trillion worldwide! These leveraged financial instruments are heavily concentrated in the banking industry and most depositors are completely unaware of the enormous risk that this poses to the entire financial system in America. According to a recent OCC report, just five banks in the U.S.; JP Morgan Chase Bank (\$88 trillion), Bank of America (\$38 trillion), Citigroup (\$32 trillion), Goldman Sachs (\$30 trillion), and Wells Fargo-Wachovia (\$5 trillion) account for 28% of this enormous figure. Most banks and brokerage firms offer money market accounts, but these are comprised of repurchase agreements, discounted mortgage notes, commercial paper, banker's acceptances, CDs and Treasury bills. A safer bet would be a money market account funded in short-term (4, 13, 26 week) U.S. Treasury bills. The following is a list of some of the best Treasury-only Money Market

Funds:

- American Century Cap Preservation Fund (CPFXX)

1-800-345-2021 (www.americancentury.com)

- Dreyfus 100% U.S. Treasury Fund (DUSXX)

1-800-645-6561 (www.dreyfus.com)

- Fidelity U.S. Treasury Money Market (FDLXX)

1-800-343-3548 (www.fidelity.com)

- U.S. Treasury Securities Cash Fund (USTXX)

1-800-873-8637 (www.usfunds.com)

- Vanguard Treasury Money Market Fund (VMPXX)

1-877-662-7447 (www.vanguard.com)

- Schwab U.S. Treasury Money Fund (SWUXX)

1-800-435-4000 (www.schwab.com)

You can compare these accounts which have check writing privileges, low minimums, and are fully backed by the U.S. government. You can also buy short-term securities directly from the U.S. Treasury by going to www.treasurydirect.gov and open an account for as little as \$1,000. Instead of receiving actual T-bills you get a bookkeeping entry that says you own T-bills.

One of the best ways to avoid the inherent risk of holding U.S. dollars is to open a savings or time deposit account denominated in a foreign currency. Perhaps the most unique and innovative bank in the U.S. that offers the convenience of foreign currency accounts is EverBank Financial Corp. headquartered in Jacksonville, Florida. For a minimum of \$2,500 you can open a WorldCurrency Access Deposit Account in a single currency like the Euro or Swiss Franc. This is strictly a savings account that pays interest on amounts over \$10,000, there are no monthly fees, and you get a monthly statement by mail with online access.

This deposit account along with a precious metals depository account allows you to hedge against the U.S. dollar and move proceeds and other funds into a currency that is appreciating. For \$10,000 you can also open a WorldCurrency CD for 3 to 12 months in a single currency. Current yields are low but can realize capital gains as the dollar depreciates. For \$20,000 you can choose among the WorldCurrency Index CDs. The Ultra-Resource Index CD is a good consideration (6/09) with a YTD yeild of 7.44%. To learn more about Everbank you can call 1-800-926-4922 or go online at www.everbank.com. For covering U.S. dollars into a foreign currency for physical delivery please go to www.travelex.com. Daily (online) limits are \$1,500 and you can get next day

delivery. To convert any dollar amount you can visit their nearest location (usually near airports), or call 1-800-287-7362, Ext. 3 for the nearest office located in your area.