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[What to Consider Before You Dash Into Cash]

In this bull market, many investors wonder if it's time to take money off the table—and where to put it
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As stocks continue to march mostly higher, many investors are asking the same question: Isn't this a good time to sell stocks and put more of my portfolio into cash?

The broadly simple answer, many financial experts say, is that taking some money off the table could make sense for anyone who needs it soon. But, they add, it might be a really bad idea for those who have a long-term investment horizon and are mainly just worried about another market correction.

But that's the simple answer. Individual investors still need to figure out how much cash—meaning uninvested assets in a portfolio, as well as low-interest holdings like a bank savings account—does it make sense to have. In addition, where should an investor park that cash? And what's the best way to build cash without sabotaging a long-term investment strategy?

Any move to raise cash should be based on needs and be consistent with the goals of a long-term financial plan, not done in reaction to each twitch and turn in the markets, professionals say.

"There have been many times during this bull market when people have said for any number of reasons that now was the time to take money off the table—and it turned out that it wasn't," says David Kelly, chief global strategist at J.P. Morgan Asset Management.

Here are some questions to consider before building a lot of cash in a portfolio:

1. **Valuations are high, so why not shift from stocks into cash now?**

   Investors generally get better returns by buying stocks more aggressively after a major market downdraft and then by reducing equity risk when valuations have risen a lot, says David Giroux, who manages T. Rowe Price Capital Appreciation Fund (PRWCX). With U.S. stock valuations now above long-term averages, he says, it might make sense to trim stockholdings tactically.

   But tactical strategies carry more risk than investors may realize. A key problem is that doing them effectively requires being right about both when to take money out of stocks and when to go back into the market, notes Peter Andersen, chief investment officer at Fiduciary Trust Co., Boston.

   Although short-term interest rates are rising—with high-yield bank savings paying 1% to 2%—putting a lot into cash could pose an opportunity loss if the stock rally continues. “This is a tough enough business anyway, and [by trading tactically] you may be stacking the deck against yourself,” Mr. Andersen says.

2. **Is there a prudent way of taking some money off the table?**

   Base the decision about how much cash to raise on expected needs for perhaps six months, says Kate Stalter, co-owner and senior adviser at Better Money Decisions, in Albuquerque, N.M. An investor also should consider selling some equity holdings if the actual allocations in a portfolio have moved out of line with the targets set by an investor’s financial plan, she adds. So, if the plan called for holding 60% in stocks, and the rally has pushed an investor’s equities allocation significantly above that, trim the equities back to 60% and deploy the cash elsewhere.

   An alternative strategy, says fund manager Mark Travis, might be doing the opposite of buying by dollar-cost averaging—which involves putting a set amount of money into stocks or a mutual fund each month, regardless of market conditions. In this case, an investor might raise cash gradually as markets advance by automatically selling a set amount of assets monthly.

   Mr. Travis, who oversees Intrepid Capital Fund (ICMBX), likes to change his fund’s allocations gradually, letting the cash position drift up or down depending on trends in market valuations.

3. **Where is the best place to park cash?**

   Use two separate parking places, says Paul Gaudio, a wealth-planning strategist at Bryn Mawr Trust’s Princeton, N.J., office. One of those is inside an investment portfolio, representing the cash an investor might use to buy more stocks or bonds or to cover fees and taxes. In portfolios he oversees, that cash usually represents a modest 5% or less of the total, though Mr. Gaudio has increased cash for some clients and plans to revisit the cash question with them toward the end of the first quarter of 2018.

   The second parking spot should be an account where an individual wants to keep funds in reserve for any planned or extraordinary expenses, Mr. Gaudio says. Bank accounts are one option, but an investor might put some money into a money-market fund or a short-term U.S. Treasury security, he says.

4. **How can an investor decide when to redeploy cash into stocks?**

Instead of waiting for a market correction and then trying to figure out whether it's a good time to reinvest, develop a plan for buying stocks in advance, says **Spuds Powell**, managing director of Los Angeles-based advisory firm **Kayne Anderson Rudnick**. Leaving the decision until stocks are plummeting is a bad idea, because many people become paralyzed by worry that the bottom will be a lot farther down, he says.

Work out a strategy with an adviser that if a broad market average were to fall by a certain percentage, the adviser would reinvest a set portion of the cash in a portfolio in stocks. People who manage their own holdings in a brokerage account could accomplish the same thing by simply placing limit orders that would trigger purchases when prices dropped by a specified amount.

5. **Still, the temptation to bail out will always be there. Could some investment strategies make it easier to have the discipline to hold less cash?**

Just as limit orders could be useful for planning when to buy, they also can offer protection against an abrupt market correction, notes Mr. Gaudio of Bryn Mawr Trust. Such an order in a brokerage account might trigger the sale of stocks or exchange-traded funds if prices fell by a certain percentage or to a specified price point, limiting the risk of further losses.

But keep in mind that such sales could trigger capital gains and might prove self-defeating if stocks dip, but then rebound strongly shortly afterward, Mr. Gaudio adds.

A solution used by **Mr. Powell** of **Kayne Anderson Rudnick** is to design a portfolio, or a portion of a portfolio, that distributes a steady flow of income each month from a combination of interest payments and dividends. "When people see that regular stream of income, it goes a long way toward eliminating the anxiety some have about the market," **Mr. Powell** says.