Bank Alternatives for Diversifying Cash Holdings

Options for biz owners in the wake of the SVB and Signature Bank failures

As a business owner, you may have heard about the recent failures of Silicon Valley Bank and Signature Bank. These two events highlight the importance of diversifying your cash holdings and exploring bank alternatives for operating cash balances exceeding $250,000, which is the maximum amount covered by the Federal Deposit Insurance Corporation (FDIC).

Here are four options for business owners to consider:

Money Market Funds

Money market funds are a type of mutual fund that invests in short-term, low-risk securities such as government bonds and commercial paper. They are designed to provide stability and liquidity for investors.

Money market funds are not FDIC-insured, but they are regulated by the Securities and Exchange Commission (SEC). They offer competitive yields and easy access to funds, making them a popular alternative to traditional bank accounts for large cash balances.

Corporate Bonds

Corporate bonds are debt securities issued by corporations to finance their operations or expansion. They offer higher yields than government bonds but also carry more risk.

Corporate bonds are not FDIC-insured, but they are rated by independent credit rating agencies, such as Moody's and Standard & Poor's, which provide an indication of the issuer's creditworthiness.

Investing in corporate bonds requires some expertise and research, but it can be a good option for businesses with a high risk tolerance and a desire for higher returns.

Online Cash Management Accounts

Online cash management accounts are a relatively new option for businesses that want to earn higher yields on their cash balances while maintaining easy access to funds. These accounts are offered by fintech companies and provide FDIC-insured deposit accounts and access to a network of banks that offer competitive interest rates.

Online cash management accounts offer a user-friendly interface and can be a good option for businesses that want to simplify their banking and earn higher yields.

Treasury Bills

Treasury bills are short-term government securities that are issued at a discount to their face value and mature in less than one year. They are backed by the full faith and credit of the US government and are considered one of the safest investments available.

Treasury bills are not FDIC-insured, but they are exempt from state and local taxes and offer competitive yields. Investing in treasury bills requires some expertise and knowledge of the bond market, and can be a good option for businesses that want to earn higher yields on their cash balances.

Your Financial Advisor Can Help

The recent bank failure of Silicon Valley Bank and Signature Bank both underscore the importance of diversifying your cash holdings and exploring alternative options for operating cash balances exceeding $250,000.

As always, it’s important to do your research and consult with a financial advisor to determine the best options for your business needs and risk tolerance.