



How Much Money Should I Keep in Cash?



We're living through interesting economic times. On the one hand, inflation is – and has been – stubbornly high. On the other hand, the investing markets are swinging. If you're asking, "How much money should I keep in cash?", believe it or not, the answer is the same when the markets are volatile and when they're (relatively) calm. And it's the same regardless of how "cautious" or "risky" you tip. When it comes to how much you should keep in cash vs invested, you don't want too much or too little — you want a "just right" amount based on your own budget and financial goals, according to Ellevest.

What does it mean to keep money "in cash"?

In the world of personal finance, "cash" doesn't usually mean literal cash, like the green stuff you can physically hold in your hand (or hide under your mattress, stash in the cookie jar, etc). Instead, it tends to mean the money that lives in your checking or savings account. Both of those accounts should be NCUA- or FDIC-insured in order to protect your money in the unlikely case of disaster. Most accounts are covered, but with the rise of digital banks, it's worth making 100%

sure. Ideally, you'll have both types of accounts, plus a plan for how much money to keep in your checking account and how much to keep in savings. And for good reason.

So how much money should you keep in cash?

The exact amount to keep in checking and savings will be different for everyone, but it's always the sum of three things:

1. **The money you use to pay your bills.** What you need for everyday living expenses.
2. **Your emergency fund.** The exact amount you need will depend on your financial situation, but we typically recommend aiming for three to six months' worth of take-home pay (or up to nine months' worth, if you're self-employed). Consider keeping your emergency fund separate from all other funds set aside for other goals. This will give you a clear picture of how much you've reserved for your emergency fund.
3. **Any money you'll need within the next two years.** What you need for short-term goals, including vacation funds, money for next year's car insurance, etc. Investing is a long-term game, so it's generally better to invest money for timelines longer than two years. Keep this in mind when you're approaching the last year or two of a long-term investing goal. Say you've been investing to put a down payment on a home and want to do it next summer; you might consider withdrawing it as cash or leaving it invested. Discuss your best next move with your financial expert.

When the economic landscape feels uncertain, it's okay to pad your numbers just a little — keep a little extra wiggle room in your checking account, beef up your emergency fund a bit. Practicing financial wellness is as much about feeling confident as it is about doing the right things with your money. How much cash you should keep on hand today might be a little different than it was (or will be) — and that's a good thing. It means you're staying on top of your “just-right” number.

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