Cash is Rarely King

The role of cash and short-term investments in a portfolio

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Key takeaways

Cash may have a role in portfolios for short-term needs, liquidity, and as a buffer against volatility.

However, cash also has risks, such as inflation and reinvestment risk.

Historically, stocks, bonds, and diversified portfolios have outperformed cash.

Cash is not a risk-free investment

There are some risks that many investors are not aware of

Inflation risk

- Investors may barely outpace inflation with cash investments.
- This may be especially true when inflation is higher than average.
- **Consider this**: Just over 50 years ago (1972) a gallon of gasoline cost $0.36[1] and a Ford Mustang would set you back $4,057[2] Fast forward to December 2025, gallon of gas cost $3.04 per gallon[3] and the starting price of a Ford Mustang is $32,640.[4]

Reinvestment risk

- Interest rates can decrease at any time, resulting in even lower returns for short-term investments.
- If the return on a short-term investment decreases, for example from 5% to 3% due to declining interest rates, an investor may fall behind the pace of inflation

[1]"Here's What a Gallon of Gas Cost When You Were Born (If You Can Believe It)", 3/25/2025, moneytalksnews.com, retrieved 2/13/2026
[2]"How Much Did A 1972 Mach 1 Mustang Cost New?", 11/29/2022, great-american-adventures.com, retrieved 2/13/2026
[3]"Pump Prices Bounce Off Lows and Impact of Hurricane Season Revealed", 12/19/2025. gasprices.aaa.com, retrieved 2/13/2026
[4] ford.com/cars/mustang, retrieved 2/13/2026

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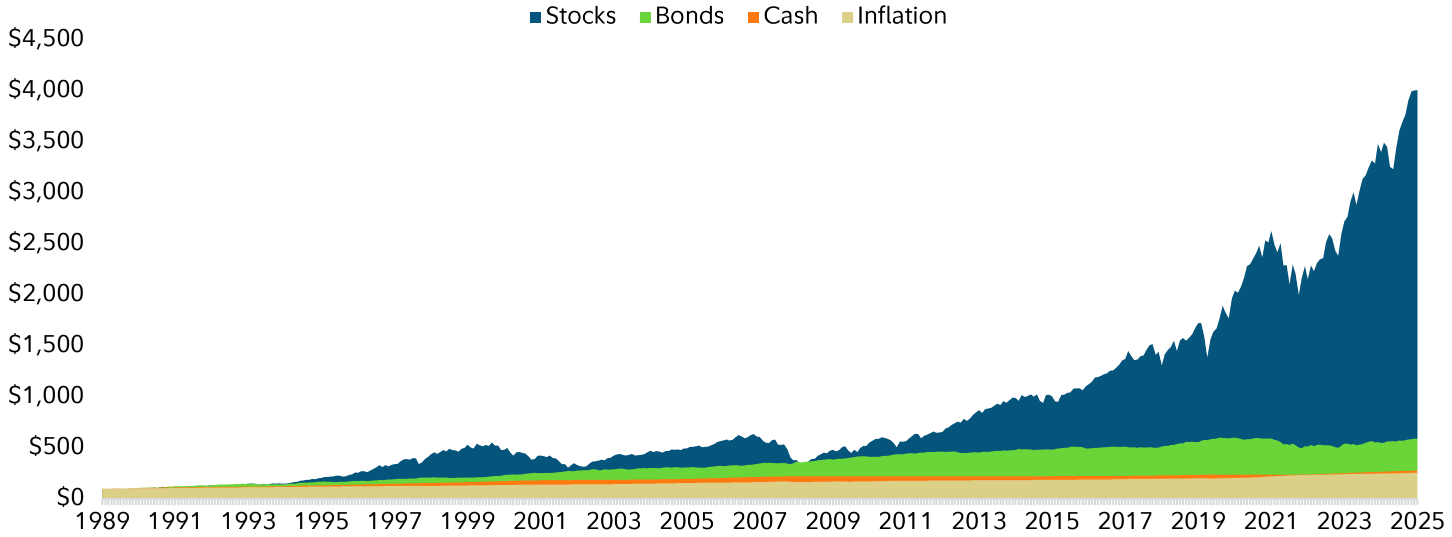
Stocks and bonds have historically driven portfolio growth

Cash may have a role in a diversified portfolio, but over long-term, stocks and bonds historically outpaced cash and better protected against inflation

- The chart to the right shows that a $100 investment made in U.S. stocks or bonds in 1990 significantly outpaced cash by 2025, as well as inflation.
- A cash investment (orange line) outpaced inflation by a much smaller margin than stocks or bonds. In some time periods, inflation outpaced cash.
- A certain amount of cash (orange line) may help with short-term needs, liquidity, and managing volatility. Cash may also help for emergency savings.
- However, excessive allocations to cash may result in significantly lower returns over extended periods of time.

Comparison of the hypothetical growth of $100 in stock, bond, and cash portfolios with inflation

January 1990 to December 2025



	Stock	Bonds	Cash	Inflation
Average annualized returns	10.79%	5.06%	2.90%	2.67%

Source: Fidelity and the Bureau of Labor Statistics, as of 12/31/2025. Stocks are represented by the S&P 500 Index, 1/1/1990-12/31/2025. Bonds are represented by the Bloomberg U.S. Aggregate Bond Index, 1/1/1990-12/31/2025. Cash is represented by the Bloomberg 3-Month T-Bill Bellwether Index, 1/1/1990-12/31/2025. Inflation* is represented by Seasonally Adjusted CPI, All Urban Consumers, All Items, 1/1/1990-12/31/2025. * Due to the government shutdown, CPI data is unavailable for the months of October and November 2025. CPI from the prior period was used to ensure a contiguous return.

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Anytime can be a good time to enter the market

The gap between best timing and annual contributions is not that wide, and even the worst timing historically outperformed cash by a wide margin

- Attempting to time the market may have led to modestly better results (best timing) than regular funding, but it could have also led to weaker returns (worst timing).*

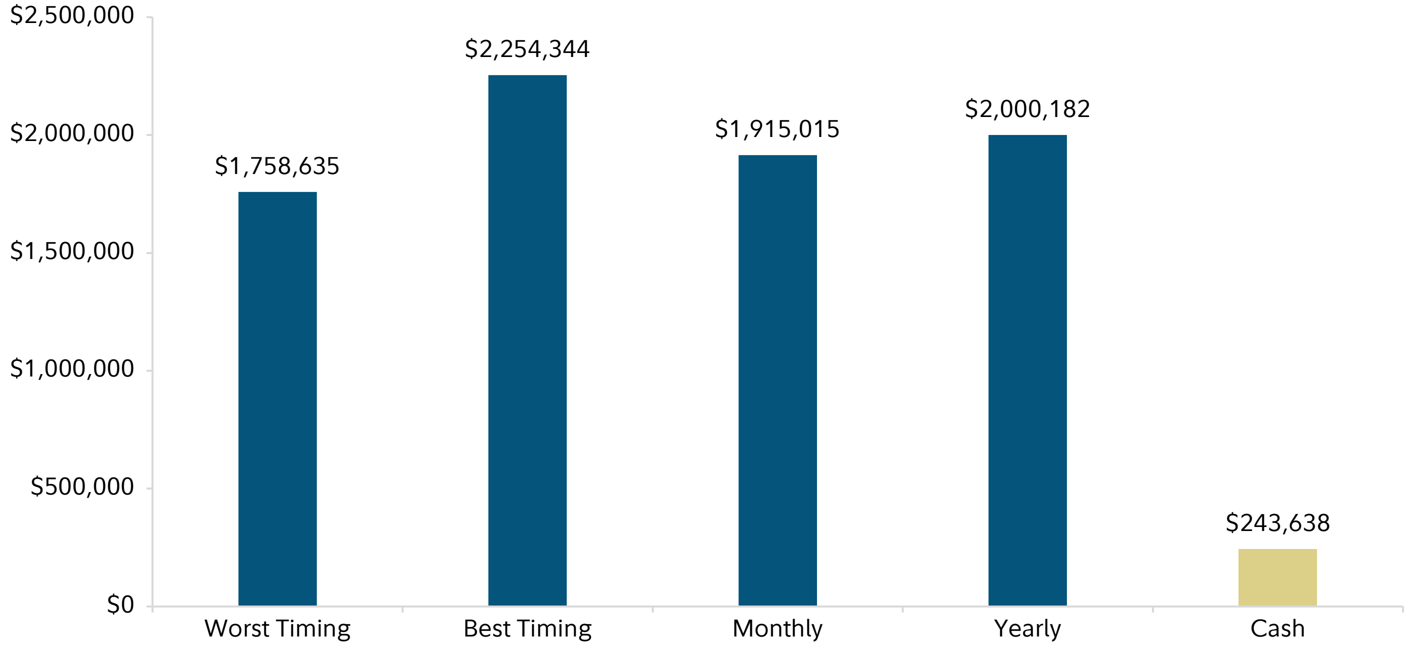
- Timing the market has been notoriously difficult, if not impossible, yet regularly funding an investment account may have potential benefits. It's important to consider the risks and potential returns of staying in cash for extended periods.

- Investing has historically shown the potential for higher returns than cash over the long run, but it also carries risk. Investors should consider their financial goals and risk tolerance when making investment decisions.

Comparison of the growth of a hypothetical annual $5,000 investment

All stock portfolio under best and worst timing each year, at the start of every year, and monthly, versus cash

1990 to 2025



*Best timing scenario is defined as investing $5,000 at a market bottom each year. Worst timing scenario is defined as investing $5,000 at a market top each year. The start of every year is defined as investing $5,000 in January of each year. Monthly figures reflect investing about $417/month. Cash figures reflect holding a cash-only portfolio. Please see Important information for more information. **Past performance is no guarantee of future results.** Source: Fidelity and U.S. Department of the Treasury, as of 12/31/2025. Stocks—S&P 500® Index. Cash—3M U.S. Treasury yields. It is not possible to invest directly in an index. All indexes are unmanaged. Please see Important Information for index definitions. 3M Treasury yield. Analysis based on growth of an annual hypothetical $5,000 investment in stocks, represented by the S&P 500® during a best timing year (defined as investing $5,000 at a market bottom each year), during a worst timing year (defined as investing $5,000 at a market top each year), at the start of every year ($5,000 in January of each year), divided monthly (about $417/month), and in a cash-only portfolio.

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Important index information

The S&P 500® Index is an unmanaged, market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to present U.S. equity performance.

Bloomberg U.S. Aggregate Bond Index is a broad-based, market-value-weighted benchmark that measures the performance of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Sectors in the index include Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS.

The Bloomberg 1-3 Month U.S. Treasury Bill Index measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months.

The Dow Jones U.S. Total Stock Market Index is an all-inclusive measure composed of all U.S. equity securities with readily available prices. This broad index is sliced according to stock-size segment, style, and sector to create distinct sub-indexes that track every major segment of the market.

The FTSE 3 Month US T-Bill Index Series is intended to track the daily performance of 3-month US Treasury bills. The indices are designed to operate as a reference rate for a series of funds.

The MSCI All Country World Ex-USA Index (Net MA) is a market capitalization–weighted index designed to measure the investable equity market performance for global investors of large– and mid–cap stocks in developed and emerging markets, excluding the United States.

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Diversification and asset allocation do not ensure a profit or guarantee against loss.

Investment decisions should be based on an individual's own goals, time horizon & tolerance for risk.

Generally, among asset classes stocks are more volatile than bonds or short-term instruments and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Although the bond market is also volatile, lower-quality debt securities including leveraged loans generally offer higher yields compared to investment grade securities, but also involve greater risk of default or price changes. Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market or economic developments, all of which are magnified in emerging markets.

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