

Cash Is King: What does opportunity cost mean for investors in 2025?

It's October 2025, and many American investors are holding record levels of cash, with much of it sitting on the sidelines in money market funds and high-yield savings accounts. This trend is less about avoiding all risks and more about managing opportunity costs, maintaining liquidity, and preserving flexibility in complex environments.[1] Holding cash brings its own risks, particularly with the weakening dollar. How much of this portfolio shift is based on fundamentals, and where might it reflect emotions or bias?

Why Is Cash Suddenly King?

After years of equity market volatility, persistent inflation, changing tariff policies, and political uncertainty—more Americans are choosing to park their savings in liquid instruments instead of perceived riskier investments. Money market assets have surged to historic high—\$7.7 trillion and climbing, reflecting not only precaution but powerful behavioral drivers—such as loss aversion and herd mentality.[2] As the Federal Reserve keeps interest rates high, treasury-backed money markets remain appealing places to hold wealth. But with rising inflation, the returns on these accounts can seem higher than in reality. Numeracy bias, where people overfocus on nominal rather than real value, can creep in as people view the 5% returns of today like they were under the historical 2% inflation regime.

The Macro View: What are the strategic implications?

This trend isn't just about individual comfort—it has big implications for the broader economy. When people hold onto cash, it reflects a more cautious mood. From Wall Street to Main Street, there's a growing sense that now is the time to be prepared for whatever comes next. Cash on the sidelines is a defensive move, which can slow economic growth and limit business expansion. This is particularly relevant in an era where shifts in trade policy and massive artificial intelligence investments require large corporate and public investments.

While excess cash can dampen longer-term growth and reduce entrepreneurial agility, it can also provide vital flexibility for private investments, real estate, and philanthropy. Integrating cash management into a comprehensive strategy is essential, particularly when volatility in other asset prices is expected. Furthermore, increased household cash flow disruptions from events like the federal government shutdown can require additional risk mitigation through investment portfolios. Fortunately, private sector layoffs have been limited so far in 2025, but with so many big changes recently, it's hard to predict when and if unemployment might rise substantially. Artificial intelligence has the potential to

displace the high-income jobs of many investors but also stifle opportunities for younger clients still building their portfolios. Financial advisors play a vital role in helping clients assess their personal strategy as well as overcome cognitive and emotional biases that may be coming into play.

Behavioral Biases: Watch-out for these biases in a cash is king moment

- **Loss aversion** is the tendency to fear losses more intensely than an equivalent gain would feel rewarding. This drives many to hold cash rather than risk losing money in volatile investments, even when long-term probabilities may favor diversified market exposure.
- **Herding** bias may also be in play. Humans are wired to copy what others around them are doing, especially in times of uncertainty or market stress. If lots of investors (or news outlets) signal that holding cash is “safer,” the impulse to do the same grows stronger, even if it means missing out on recovery or growth.
- Ironically, **overconfidence** bias can also play a role. Some investors assume they will perfectly “time” a re-entry to riskier markets but end up keeping cash parked indefinitely, waiting for ideal conditions that are all but impossible to predict consistently. It’s important to remember that overconfidence is different from **overoptimism**, which is about future states of the world—not personal ability. So many investors could be pessimistic about the future but overconfident in their ability to navigate it.
- **Numeracy** bias becomes prevalent in environments with high inflation. If inflation rises while at the same time interest rates fall, the real returns to money markets moves toward zero. Investor can anchor on the numerical returns, staying in cash longer than the relative returns of doing so justify it.

Key Takeaways for Clients

- **Talk to your Financial Advisor:** Cash decisions should be linked with estate, tax, and charitable planning—not made in isolation.
- **Review Regularly:** Markets, tax laws, and personal goals evolve—review your liquidity and allocation plans at least annually.

- **Focus on Real Returns:** It's tempting to lock in on nominal returns to money markets. Financial advisors are constantly considering these real returns, and can help discipline clients in incorporating inflation adjustments.
- **Be Ready, With Discipline:** Maintain “dry powder,” but set defined criteria for redeploying cash rather than relying on instincts or headlines.

Conclusion: Rethink Cash as a Strategic Cornerstone

Substantial cash reserves add prudence during global uncertainty, but real value comes from a disciplined, holistic approach—where cash is actively managed in the context of taxes, legacy, and long-term growth. Recognizing behavioral traps and collaborating closely with your Financial Advisor will help your cash serve you as an engine for both opportunity and security.

[1] [Cash vs. Investments: What Percentage Should You Keep?](#)

[2] [U.S. Investors Are Flush With Cash, and Happy to Keep It There - WSJ](#)