Does it makes sense to phase into markets?

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Phase-in strategies may help investors put cash to work while mitigating bad timing risk

Key points

- Cash offers safety and liquidity, but its returns often lag those of diversified portfolios over time.
- As markets rise, the opportunity cost of holding cash becomes more pronounced—especially if investors miss out on sustained rallies.
- While waiting for a pullback may feel prudent, history shows that timing the market is difficult. Investors who remain uninvested may risk missing the early stages of a market rally.
- In this article, we review different phase-in strategies and highlight other approaches for balancing opportunity cost and downside risks.

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Introduction

In the current environment, holding onto cash has been appealing for many investors. We see two major contributing factors driving investors to hold excess cash:

1. **Attractive yields on cash.** The Federal Reserve fed funds target range now sits at 3.50-3.75%, even after a series of rate cuts in the past two years. Though short-term interest rates remain below the 5.5% level that they reached in 2024, the current environment still offers relatively attractive yields—especially when compared to the "zero interest rate policy" that we endured for many years following the Global Financial Crisis.[1]
2. **Market uncertainty**. If geopolitical risks and economic fears weren't enough, investors today must contend with elevated market valuations, disruptions from artificial intelligence, and headlines about burgeoning credit risks. When it feels like there is an abundance of risks and a shortage of clear signals, it is tempting to give into the instinct to stay on the sidelines.

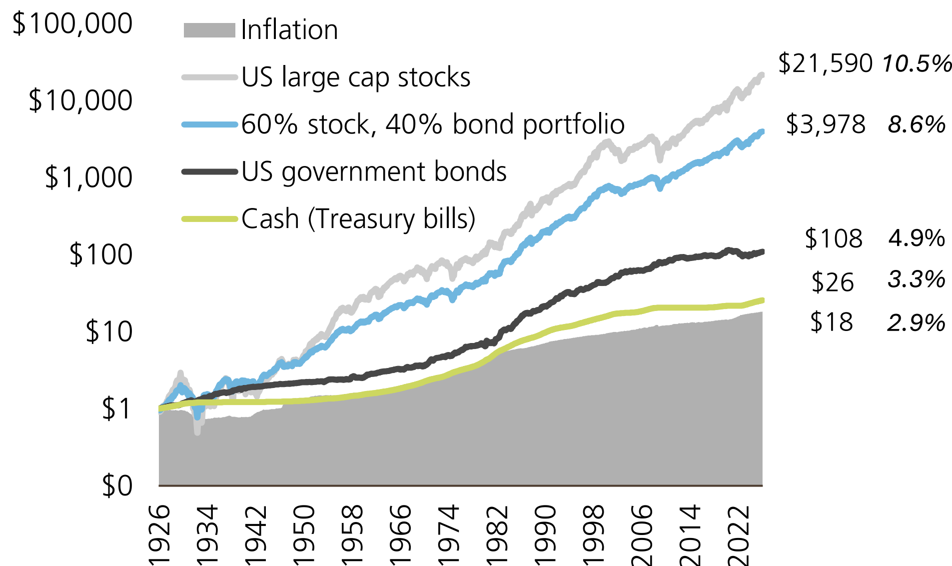
Although cash provides comfort and flexibility, investors may want to consider the long-term trade-offs of waiting for the “perfect” moment to invest.

The opportunity cost of holding excess cash

Cash offers safety and liquidity, but this comes at the cost of limited returns. Over the long run, cash returns have been much lower than diversified portfolios; as shown in Figure 1, $1 invested in cash (short-term Treasury bills) in 1926 would be worth about $26, compared to $21,590 if it were invested in the S&P 500 index of US large-cap stocks, $3,978 if invested in a balanced 60/40 stock/bond portfolio, or $108 if invested in US intermediate government bonds. Cash returns have barely outpaced inflation in the long run, even before accounting for taxes.

Figure 1 - Excess cash carries a large opportunity cost over time

Growth of $1 invested, and compound annual growth rate, since 1926



Source: Morningstar Direct, Bloomberg, UBS, as of 28 February March 2026. Does not reflect the impact of taxes.

As markets rise, the opportunity cost of holding cash becomes more pronounced—especially if investors miss out on sustained rallies. While waiting for a pullback may feel prudent, history shows that timing the market is difficult, and that the long-term cost of holding excess cash may far exceed the damage of a short-term drawdown.

It may be prudent to hold cash for short-term spending needs. For example, 6 months of spending needs may be a sufficient emergency fund for working-age investors to address unexpected expenses. For retirees, setting aside three to five years' of net portfolio withdrawals in a Liquidity strategy (cash and high-quality bonds) may be a prudent approach

for protecting against the risk of needing to sell long-term assets during a market drawdown. For more information, see our recent report, Liquidity strategy: Refilling for 2026 and beyond, published 15 December 2025.

For families with cash that goes beyond these short-term spending needs, what is the best way to put this excess cash to work? Let's review some strategies.

Phase-in strategies

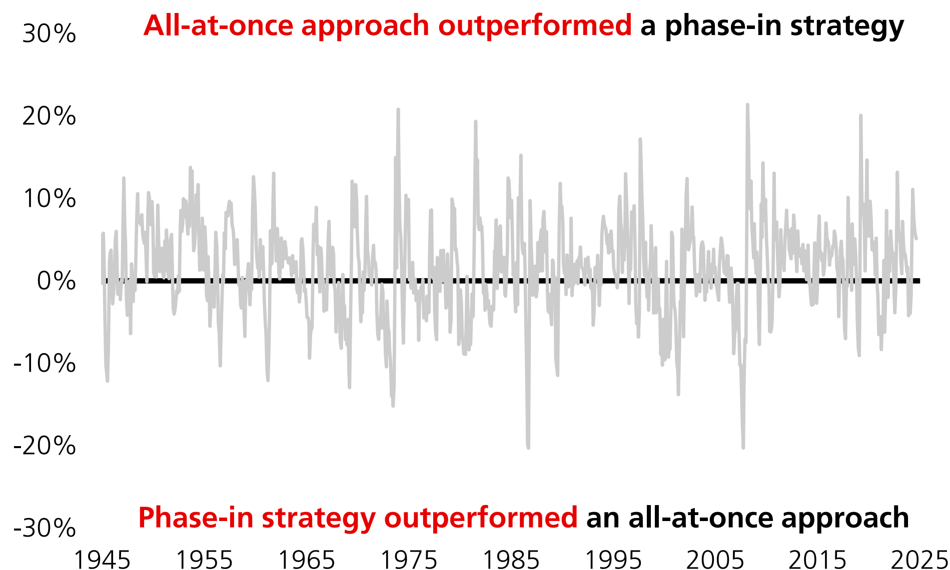
Market drawdowns are a normal part of investing, but large losses are relatively rare and short-lived. Investors concerned about volatility may find comfort in phase-in strategies, such as dollar-cost averaging, as a way to help ease anxiety about portfolio swings.

Dollar-cost averaging strategies work by investing cash in phases to gradually enter the market. For example, an investor with $600,000 of excess cash might commit to buying $100,000 per month for six months. An "all-at-once" investor, by contrast, would simply put all $600,000 to work straight away.

Dollar-cost averaging strategies may be more comfortable than an "all-at-once" approach, and they may modestly reduce the risk of bad timing (such as buying just before a market decline). On the other hand, history shows that dollar-cost averaging strategies do incur an opportunity cost from holding cash for long.

Historically, buying the S&P 500 using an "all-at-once" approach has outperformed a six-month phase-in strategy in 78% of all periods since December 1945, with an average outperformance of 4.6%, as shown in Figure 2. The all-at-once approach did carry more risk, however, with a maximum loss of -41.8%, compared to -24.9% for the six-month phase-in.

Figure 2 - An all-at-once approach has usually outperformed a phase-in strategy
Excess return, all-at-once investment versus a 6-month phase-in to the S&P 500



Source: Morningstar Direct, Bloomberg, UBS, as of 28 February 2026.

It's important to remember that phase-in strategies only help to manage risk during the phase-in period; both strategies face the same market risk and return potential once the phase-in has been completed and all the funds are invested.

Investors may wish to tailor their approach based on the size and frequency of deposits. Routine contributions may benefit from immediate investment, especially when putting cash to work in a balanced, diversified portfolio. For large, infrequent deposits, a phase-in strategy may help manage the risk of investing just before a downturn, particularly in concentrated or higher-volatility portfolios.

Enhancing the potential effectiveness of a phase-in strategy

There are several ways that may help investors strengthen a phase-in approach. For example:

1. **Only phase in stocks.** Asset classes such as bonds and alternative investments have historically faced milder and shorter-lived drawdowns than stocks, so it may make sense to put those funds to work immediately and only phase in the equity allocation.[2] This may help to reduce the opportunity cost of the phase-in approach without incurring significant market risk.
2. **Establish a clear plan.** Committing to a pre-determined schedule may make it easier to maintain discipline and avoid emotional decision-making.
3. **Lock in yields.** Another way to enforce discipline during the phase-in process is to put excess cash into a bond or CD ladder, with the plan to put cash to work in phases as each security reaches maturity. CD ladders may offer a higher yield than other cash alternatives, and may help to lock in interest rates during the phase-in period; by contrast, cash and savings account yields may decline if there is a decline in interest rates.
4. **Accelerate during a drawdown.** Phase-in strategies may outperform an all-at-once approach if they are able to take advantage of a market selloff during the phase-in process. Investors may want to accelerate the phase-in process after a market dip to take advantage of the dip-buying opportunity.
5. **Consider other protection options.** For investors who are considering a dollar-cost averaging strategy as a way to manage downside risks, it may be helpful to consider other strategies—such as structured investments and options—that offer more explicitly protection against a potential market decline.
6. **Manage opportunity cost.** The main risk of a phase-in strategy is that markets may rally while the investor is still holding cash. Strategies such as put-writing and structured investments may help to manage opportunity cost and provide exposure to market upside during the process. Writing puts may also allow investors to collect options premium in exchange for committing to buy on a dip.
7. **Customize the plan.** With guidance from a financial advisor, each investor should develop a plan that addresses their individual concerns and risks.

Conclusion

Ultimately, the decision of when and how to invest cash depends on each investor's circumstances, risk tolerance, and market outlook. No strategy eliminates uncertainty, but a thoughtful plan may help investors balance the comfort of holding cash with the potential for long-term growth, keeping their goals in focus even—especially—during a challenging market environment.

End notes

[1] Trading Economics. (2026). United States Interest Rate. Retrieved March 24, 2026, from https://tradingeconomics.com/united-states/interest-rate.

[2] UBS Chief Investment Office Research, *How can a phase-in strategy improve your returns?*, published 9 April 2025.

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