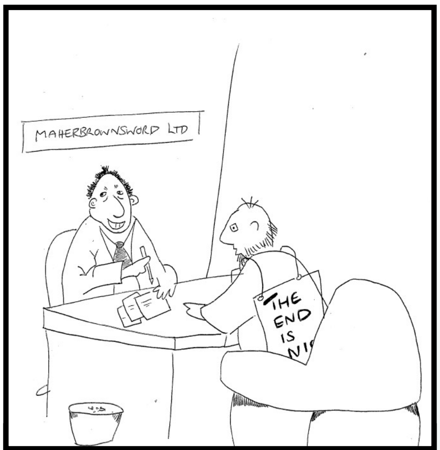
Cash is King?

Holding money in cash might seem like the safest option during turbulent times, but if you are holding significant amounts in a savings account or cash ISA, you could be losing money in real terms. With inflation (CPI) currently at 5.1% and expected to remain above 4% for most of 2022, unless your savings rate is better than inflation you are likely to be losing money. In the UK an estimated 6.7 million adults hold approximately £270 billion in cash ISA's.

With the best Cash ISA rates currently around 0.6%, leaving £10,000 in a cash ISA will make £60 this year, but it's "value" will have dropped by £460 due to inflation.

We often talk to clients about the misconception that "Cash is King", even through the turmoil of the last 2 years and the previous financial crisis in 2008, the key to long term financial security is to look at a broad and balanced approach in line with your own individual risk profile.



"Like I told you yesterday, if you want to invest in a pension you need to start thinking longer term!"

Look at Inflation as an Investor not an Economist

Whilst inflation is certainly grabbing headlines at the moment and price rises in things like energy and food, can seem alarming, it is worth remembering that financial headlines are often written by economists not investors. So I think its worth while considering inflation from an investors point of view.

Inflation is a relatively simple concept, used to describe the gradual rise in the cost of goods and services. Inflation is generally healthy if it's in the 2-3% per year range, but it is considered to be unhealthy if it falls too low or rises too high. For this reason, the Bank of England will adjust interest rates to control it.

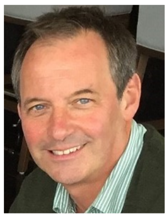
Inflation is important today because it is currently rising from a very low base, but it's perhaps rising too quickly. This is understandable, given the re-opening of the economy.

For investors, the key is to strike the right balance for your long-term goals and risk tolerance, which is a core part of your financial plan.

On this, the return on cash (interest) typically fails to keep pace with the rising prices of goods (inflation). Therefore, as a long-term pursuit, cash is actually a very bad investment. Hence, unless we have absolute certainty that the markets are nearing the peak, which is extremely difficult to predict, putting everything in cash is rarely a good idea.

The portfolios that we offer our clients use cash selectively as an investment tool, where cash is treated as any other asset class available for allocation. This means that as the attractiveness of other available assets rises relative to cash, cash allocations should fall and vice versa. This brings us to a crucial aspect of wealth creation and preservation – we need to be a step ahead of our own emotions as well as other participants emotions. So yes, cash may feel like the best place in the darkest moments (so-called "cash is king"), but it is a poor choice when considered as a long-term pursuit and only tends to work if we increase it before the market decline occurs.

Working closely with our clients, we remain confident that our portfolios are well positioned to navigate different inflation environments. We can't rule out the odd setback (whether due to inflation, covid, or otherwise), but wealth creation is often about avoiding the biggest mistakes, which is why our investment portfolios are diversified across different assets. We want to "be greedy when others are fearful and fearful when others are greedy", but we also want to manage risks along the way.



If you are interested in finding out more about investing, get in touch with Andy at MaherBrownsword Limited on 01789 268656 or email me on andy@no1ifa.com.

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