

A&J

The Temptation of Holding Cash



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From 2009 to 2021, the Bank of England's average interest rate was 0.5%. Fast forward to 2023 and we are now seeing the highest rates of interest paid since 2008. We have had many individuals ask the question "Why invest when I can get a good rate of interest in cash savings?"

While it's true that there are instances where holding onto cash might offer a good rate of return, it's important to consider the broader financial landscape and the long-term implications of this choice. Here are a few factors to consider when deciding whether to invest or hold cash, even if cash seems to be offering a good rate of return.



Inflation Risk:

One of the primary concerns with holding cash is the risk of inflation eroding its purchasing power over time. Inflation is the gradual increase in the cost of goods and services, which means that the same amount of cash will buy you less in the future. Even if you're earning an interest rate on your cash, if that rate is lower than the inflation rate, you could still be losing purchasing power over time. This is even more relevant with current inflation figures which are still above what you can earn in the bank and are therefore offering you a negative return after inflation.

Diversification:

Investing allows you to diversify your portfolio across various assets, which can help manage risk. Relying solely on cash exposes you to inflation risk and may limit your potential for growth. A diversified investment approach can help you weather market fluctuations and potentially reduce the impact of poor performance in any one asset class.

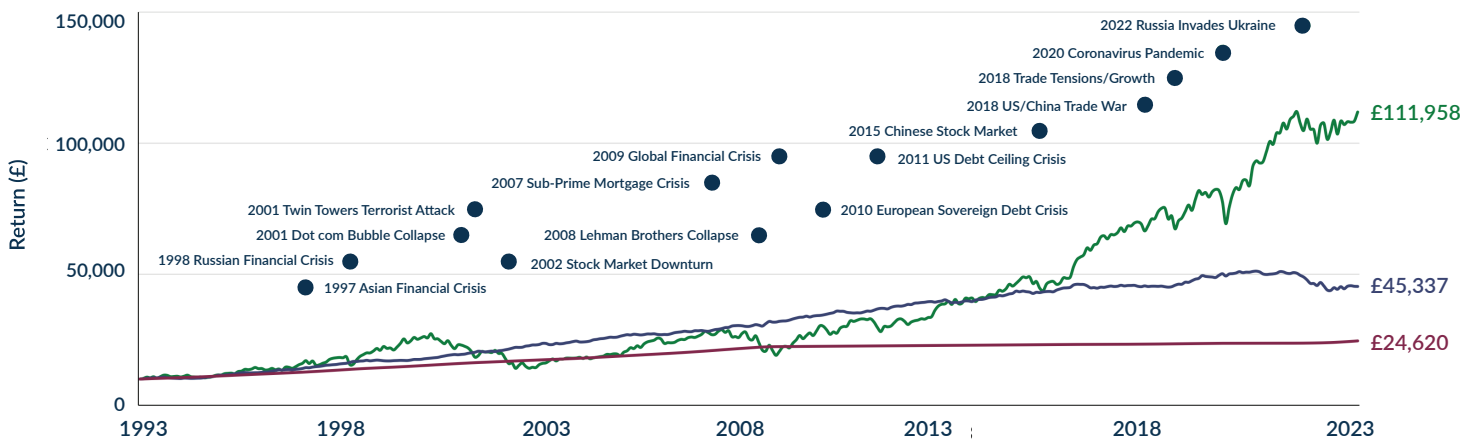
Long-Term Goals:

If your financial goals involve accumulating wealth over the long term, such as saving for retirement or building a nest egg, investing has historically provided better opportunities to achieve those goals. Investments have the potential to generate higher returns over extended periods, allowing your money to grow more effectively and potentially outpace inflation.

The table below measures global equity market performance versus bonds and cash. It shows that over a medium and long-term period, returns are positive and inflation-beating if you are willing to wait and stay patient.

Cumulative Returns

| | 5 Years | 10 Years | 20 Years | 30 Years |
|-------------------|---------|----------|----------|----------|
| — Global Equities | 57% | 191% | 592% | 1020% |
| — Global Bonds | 0% | 16% | 92% | 353% |
| — Cash | 5% | 7% | 41% | 146% |



Source: Quilter

Why stay invested?

Market conditions can change rapidly, and even a brief absence from investing in the stock market can lead to notable declines in your total returns, especially versus inflation. At present, both interest rates and inflation are the highest they have been for the last 15 years. Nevertheless, historical patterns demonstrate that after approximately 18 to 24 months, higher interest rates often alleviate inflationary pressures, leading to a decline in both factors.

Historical data indicates that during such occurrences, there is typically an upturn in the performance of stocks and shares. If feasible, maintaining your investment position will optimise your chances of capitalising on the potential forthcoming upswing and will give you the best chance to have inflationary beating returns.

In addition, markets are inherently forward-looking and tend to react to anticipated future trends rather than current conditions. So, as we see poor performance across markets, the likelihood that future returns will be higher increases as we are witnessing now.



We are likely to encounter volatility-inducing events, as we have already discussed, and no one knows when exactly they will occur or just how rough the market will react. We know that over time, markets will recover and, if patient, time has shown, will produce superior investment performance.

We can conclude from this that the key to successful long-term investing is staying invested!

If you have any questions or would like to discuss your investments, please do reach out. I'm here always to help determine the best course of action to achieve your long-term financial objectives.

As a reminder, you can arrange a meeting by calling us on 01628 480200 or by emailing me.

Disclaimer:

The opinions expressed in this update are those of A&J Wealth Management Limited only, as at 22nd August 2023, and are subject to change.

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