



## MONEY DUE REWARDS:



**Greg Southwell**

### Cash – How Safe is it?

In the world of finance, the last six months have seen more than their fair share of panic. With global investment markets being very volatile, many investors have joined the rush for cash. As a result many financial institutions are now falling over themselves trying to bring new cash products to the market. After all, isn't cash the "safe haven" investment that everybody needs to have when times get tough? Certainly it is, but, there are some risks involved, and these are well worth knowing about.

The first, and most obvious risk for cash investments, is what the industry calls "counterparty risk". In essence, it's the risk that your bank will go broke and you'll lose the lot. It is this sort of risk which leads otherwise sensible people to take out their life's savings in banknotes and hide them under the bed in a steel-plated security box. This type of risk came a lot closer to home in the U.S. in recent months than it did in Australia, with the failure or near failure of some of the biggest institutions in the country – including Morgan Stanley, AIG and now Citigroup.

Here in Australia, we are relatively fortunate, with all four major banks in pretty sound condition, and now a government guarantee on deposits as well. It seems that as long as you stay within the regulated banking system, you are pretty safe – this time, at least.

Cash products do have some other risks, however, and a big one at the moment is that the available return is becoming lower by the week. For example, the yield on 180 day bank bills at the time of writing is 3.96% as against 4.18% a week ago. The story is similar for other interest bearing instruments, with five year bonds down from 4.095% to 3.815%, three year Commonwealth Bonds down from 3.72% to 3.45%, and 10 year US Treasury Bonds down from 3.73% to 3.2%. All this is at a time when governments worldwide are pumping cash into their respective economies as if there is no tomorrow.

While it is undoubtedly true that not many readers invest directly in these products, the fact is that these plummeting rates will flow through directly to all sorts of bank deposit products. We aren't too far away from a situation where the inflation rate will be higher than the interest you get from the bank - that is, where you are losing money in real terms, by investing in cash.

The other problem with staying invested in cash is the lost opportunities. Whatever you have packed away in a cash account isn't invested in other assets, and this certainly isn't a problem when those "other assets" (e.g. shares) are losing 50% of their value in a year, as has happened in the last twelve months. Based on past bear markets, however, it has to be said that such periods have often been followed by periods of quite spectacular recovery.

Whilst we can't know when this will happen, we can be pretty sure that it will happen. When it does, having your life's savings sitting in a cash account earning nothing is going to look like a pretty poor alternative.

If you are one of those people who through good luck or good management have had a good proportion of their assets sitting in a cash account for the last twelve months, you will be feeling pretty good right at the moment. To keep the good feeling, my suggestion is that a switch to another asset class in the foreseeable future may well be a good move. Speak to a professional advisor if you need assistance in making the switch.

Greg Southwell and Dawson & Partners Financial Services are Authorised Representatives of Lonsdale Financial Group Ltd, an Australian Financial Services licensee. Greg is also a SMSF SPECIALIST ADVISOR™, a CA – FINANCIAL PLANNING SPECIALIST, and a director of Dawson & Partners, a Cootamundra based accountancy and financial advisory firm, which was established in 1913. Dawsons have a division specialising in self-managed superannuation and sharemarket investing. The information in this article is general advice only and has been prepared without taking into account your objectives, financial situation or needs. It is recommended that you should seek professional advice prior to making a financial decision or acquiring a financial product.

SMSF SPECIALIST ADVISOR™ is a mark owned by the SMSF Professionals' Association of Australia Limited (SPAA), and is awarded to individuals who successfully comply with all the initial and ongoing accreditation requirements of the SPAA Specialist Accreditation Council.