THINKING BEYOND CASH - ALTERNATIVE SAFE HAVENS FOR YOUR CAPITAL

FREE GUIDE

find a wealth manager.com

INTRODUCTION

In uncertain times, investors naturally seek "safe havens". But while simply sticking to cash might seem like the safest option, in reality holding the majority of your wealth in this asset class may well be anything but.

In this eBook, experts from the findaWEALTHMANAGER.com panel explain why the savvy should really be looking at options other than cash for at least a portion of their wealth.

There is no denying the appeal of cash. Most of us start accumulating wealth in simple savings accounts in our youth and there is great reassurance in seeing your cash building up in an easily accessible account. As Giles Rowe, Chief Executive of Henderson Rowe, observes:

> "Cash is seen as uniquely safe – the unit in which every value is measured."

Cash has a special psychological status, yet it also has several limitations investors cannot afford to ignore. Keeping physical cash oneself, metaphorically "under the mattress", is clearly unwise due to the risk of theft, while secure storage methods like safe deposit boxes carry not insignificant costs. But nor is holding large amounts of cash at a standard financial institution necessarily a great option – particularly in today's economic environment.

IN THIS GUIDE ...

RISK #1
Poor Interest rates

Interest rates on many deposit accounts remain very low indeed, particularly on the High Street. Standard savings accounts – and even ISAs - are unlikely to yield very much for the foreseeable future. In fact, between June 2016 and April 2017 the average cash ISA rate more than halved to stand at a paltry 0.43% .

It should be noted here, however, that if you have significant amounts you may be able to access very much more favourable rates on cash deposits through a private bank or wealth manager. Many of the institutions on our panel are able to offer facilities that might be very attractive indeed to those used to the standard rates on offer.

RISK #2
Compensation limits

Poor yields aside, there is also the issue of safety of assets. Protections are in place in well-regulated jurisdictions like the UK, but there are still risks to be aware of here.

Memories of bad times fade fast and so our experts urge investors to cast their minds back to the financial crisis of 2008 and the spectacle of "bank runs" to recall how large cash deposits can quickly start to seem very worrying indeed.

The Financial Services Compensation Scheme is a compensation fund of last resort authorised by the Financial Conduct Authority and the Prudential Regulation Authority to cover customers placing money with eligible banks, building societies, credit unions and insurance companies in case of default. The FSCS is rightly a longstanding source of comfort, having been in existence since 2001, but what investors may not realise is that it only covers £85,000 of funds with each institution (the limit was reduced to £75,000 in 2015 before being raised again at the beginning of 2017).

This is why many affluent individuals come to findaWEALTHMANAGER.com looking to diversify their wealth among a broader spread of institutions so that they can maximise their protection via the FSCS.

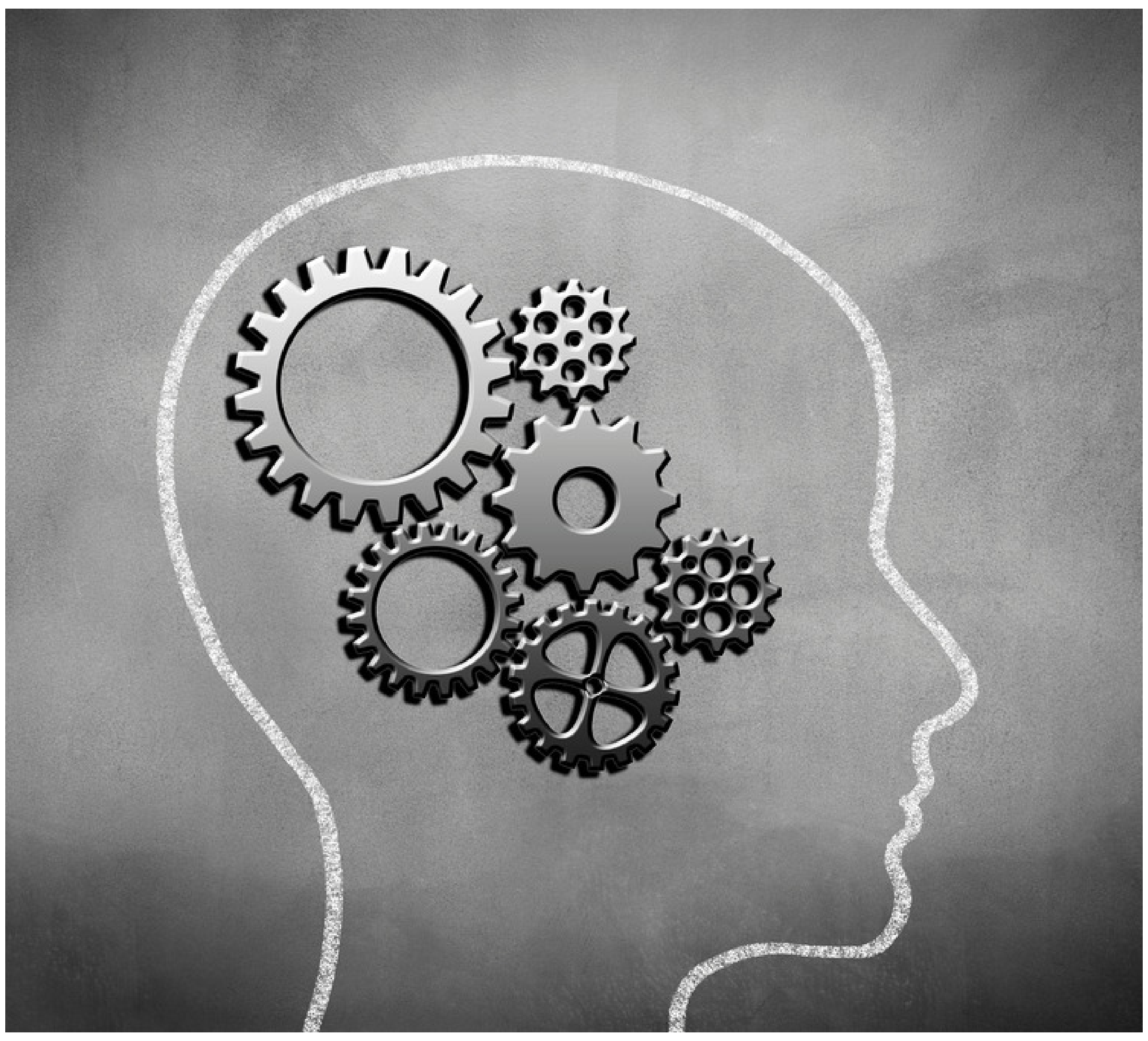
Institutional failures may be rare, but they are a possibility (investors should be particularly wary of keeping money offshore in less well-regulated places). As Rowe cautions:

Giles Rowe, Chief Executive of Henderson Rowe

> Deposit accounts are not physical cash. Beyond the FSCS's £85,000 guarantee, in a crisis they are just IOUs, and – as events in Cyprus showed – they can be vulnerable in bank rescues.

RISK #2 cont.

Perhaps most importantly, investors should be aware that the FCSC limit applies *per banking licence*, rather than for each subsidiary business that this might cover. Therefore, it pays to take a very careful look at where your money is held and who that organisation’s ultimate owner/licensee is to avoid “doubling up” and your money not being as protected as you might think.



RISK #3

Inflation

It is, however, inflation that is the most insidious threat to wealth when its held in cash in an environment like the current one. In an inflationary setting, the real value of cash can erode alarmingly quickly. Consumer Price Inflation rocketed from 0.3% in February 2016 to 2.3% in February 2017 , and its further upward trajectory seems assured. For you to retain the buying power of your wealth, the returns on your assets must at least keep pace with inflation.

As ever, your time-horizon and overall investment strategy are crucial: holding cash opportunistically might offer opportunities, but sitting on large amounts long term is unlikely to be worthwhile.

Consumer Price Inflation rocketed from 0.3% in February 2016 to 2.3% in February 2017

As Thomas Becket, Chief Investment Officer at Psigma Investment, points out

> Holding cash on a short-term basis makes decent sense. It helps dampen risk and offers the freedom to invest in other assets as and when they become attractive, making it useful in choppy markets on a short-term basis

“However, on a longer-term basis, the case is less compelling due to the erosive effects of inflation and extremely low cash rates.

“Owning cash for anything other than the very short term means signing up for a guaranteed loss of purchasing power as the real value of capital is eroded. Rates, especially on cash deposits, are likely to remain low for the foreseeable future which suggests cash holdings over this period will lose value. This is consistent with the story of the last eight years where cash holdings have lost in excess of 20% of their purchasing power.”

SO WHAT ALTERNATIVES TO CASH MIGHT SAVVY INVESTORS EXPLORE?

Investors are increasingly waking up to fact that while cash certainly has a place in portfolios, it can be seriously flawed as a long-term, sole store of value. According to research by Investec Wealth & Investment, 64% of financial advisers believe the perception of cash as a “safe haven” is dying and 70% see investors increasingly switching capital into other asset classes.

The alternatives to cash

The first thing to remember is that there is no such thing as a 100% safety – no matter what popular wisdom may say. “When investors are looking for alternatives to cash they generally mean they want cost-free security, but no asset really delivers this,” said Rowe. “Cash and gold can be stolen, land confiscated, property needs maintenance and wavering house prices give the lie to the phrase ‘Safe as houses’."

In his view, investors looking for alternative safe havens have three go-to options, although all carry more short-term risk than cash. “Short-term bonds are the closest alternative to cash, albeit with greater risks, then there are money market and bond funds,” he said. “Money market funds are diversified and ‘cash-like’, but offer only low returns, while bond funds have more chance of beating the market.”

Although they are far higher up the risk spectrum, for those with time on their side Rowe also advocates equities for real outperformance and therefore greater certainty of reaching their financial goals.

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"Equities of course are very far from cash, capable of rising or falling up to 50% in a year, but in terms of long-run returns they demolish other asset classes over time," he said. "Paradoxically, the more you seek short-term safety, the more likely you are to miss the security of long-term returns."

Inflation can significantly erode future buying power, £1 in 1970 is worth 7p today

Diversify for greater safety and outperformance

All this means that spreading your wealth among a carefully selected and balanced range of asset classes is key, although this may be a very challenging task for non-professional investors.

As Lee Goggin, Co-Founder of findaWEALTHMANAGER.com, observes:

> "Modern portfolio theory suggests that the best approach is holding a diversified portfolio of assets that are not correlated, meaning that whatever the economic environment some should perform well. Dull and established 'plodders' and fast-growing stocks should appear, as well as racy small-caps and dull fixed income investments.

"However, discipline is crucial when constructing and rebalancing a diverse portfolio of assets. You have to stick to your pre-prescribed rules, otherwise a portfolio can quickly become unruly and unbalanced.

"Emotion can play a large role and it's easy to lose sight of diversification and risk management, meaning that for many investors the holy grail of maximising gains and minimising losses is elusive.

"For those that do have the time and expertise required, then good luck to you. For those that don't, consider a conversation with a professional wealth manager who can guide you through the often stormy investment seas and create a portfolio that makes sense."

NEXT STEPS

As we have seen, putting all your financial "eggs in one basket" is highly unlikely to be the best path – particularly if that basket is cash in an inflationary, low interest rate environment.

Diversifying your wealth into a mix of asset classes and investment instruments well-suited to your financial situation and goals will yield far superior results.

If you are holding large amounts of cash and are unsure of how to deploy this capital then you are certainly not alone. A very significant proportion of our users describe themselves as being in just this situation.

Whether you still want to retain cash for practical purposes, but want to see if you can access better deposit rates, or if you are ready to seek the kind of diversified portfolio that will deliver real outperformance and financial security, there are many wealth managers on our panel that can help.

HOW CAN findaWEALTHMANAGER.com HELP?

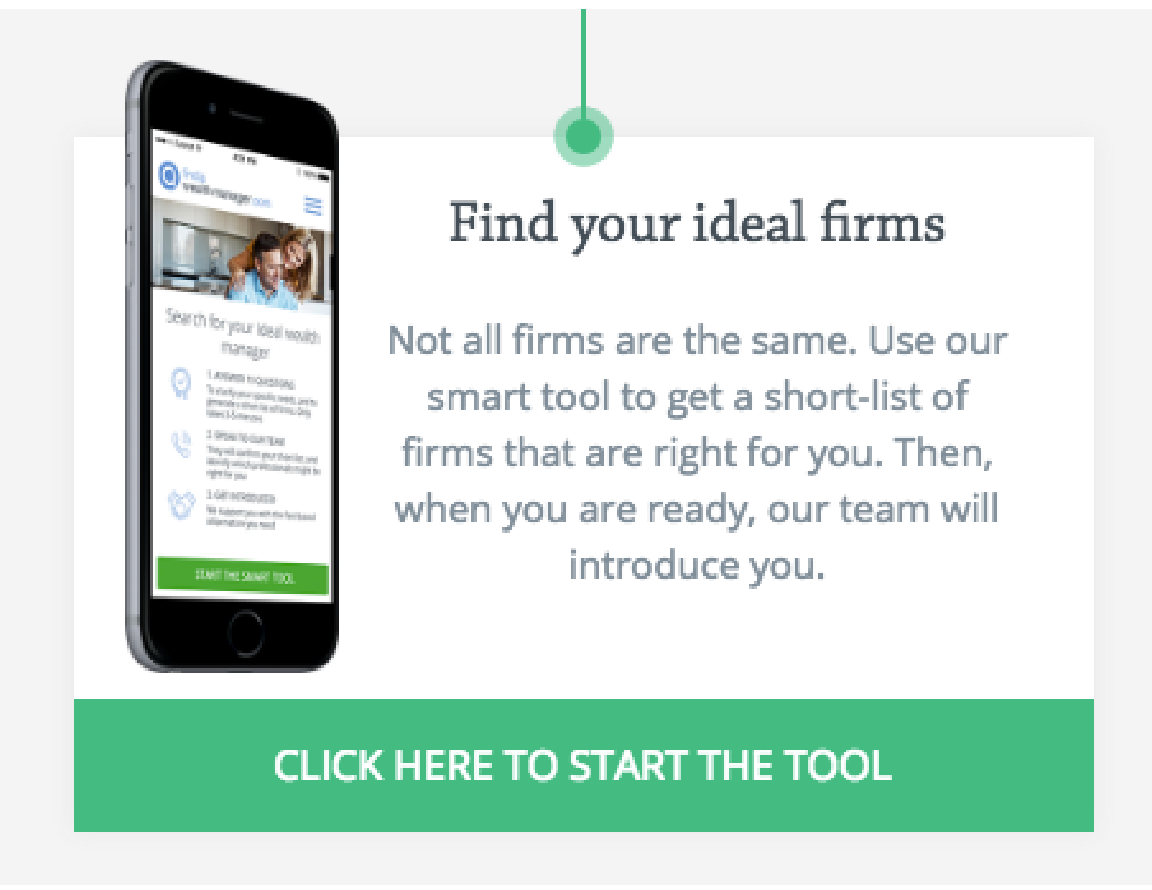
We take the time and complexity out of finding your ideal wealth manager. Whether you are new to wealth or looking to change, our full (no-cost) service gives you the facts and tools you need to secure the best deal for your money.

In three simple steps, you can take action to reach your wealth and tax planning goals. Simply answer 15 questions using our online tool to confirm what you are looking for. The tool will then build a profile from your answers and use smart technology to match you to the firms on our panel. Your results are then generated and presented to you as a short-list of highest-ranking firms.

At a time that is convenient, we will call you to confirm your shortlist and identify which professionals are best-placed to serve you. Relationship is important: we will identify someone that has the skills that you need, and someone that you can trust.

We support you with insight and information to secure the best deal to protect and grow your wealth; fees are always negotiable. We provide access to the information that will help you review and compare your options so you can make the right choice.

Try our smart online tool to create a shortlist of firms that are right for you



FURTHER READING

What is the difference between a wealth manager, an investment manager and a private bank?

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Lee Goggin, Co-Founder, findaWEALTHMANAGER.com

findaWEALTHMANAGER.com
T: +44 (0) 207 193 5691 | E: ukteam@findawealthmanager.com
A: Alpha House, 100 Borough High Street, London SE1 1LB, UK