Are you squirrelling away too much cash?

When inflation rises, cash needs careful management.

A recent strategy paper published by the Financial Conduct Authority (FCA) stated, "Many consumers who might gain from investing currently hold their savings in cash".

Those words may sound as if they originated from a trade lobby for investment managers, but unusually, it's the FCA that is concerned. Research carried out on its behalf revealed that more than a third of adults with £10,000+ of investible assets held *all* those assets in cash, while just over another sixth held above 75% in cash.

Make no mistake: we all need *some* readily available money – a rainy day reserve – to help us cope with the unexpected, be it a car repair or broken boiler. Ideally, such money should be in an instant access account, so that it is immediately available. At present these accounts pay minimal interest – the best (internet) deals are currently offering around 0.6%, while High Street names may pay as little as 0.01% (i.e. 10p a year interest on a £1,000 deposit).

When interest rates are below the rate of inflation, the longer you hold cash, the more buying power it loses. The effect may not be immediately obvious, especially when inflation is low. For example, over the last five years to September 2021, annual CPI inflation averaged 2.1%. Viewed another way, £100 in September 2016 was worth £89.95 half a decade later. During that period the Bank of England base rate, which sets the benchmark for short-term interest rates, varied between 0.75% and 0.10%. At no point across those 60 months was the interest rate higher than the inflation rate.

Market expectations predict a gentle increase in interest rates given the many headwinds the UK economy is facing. If you want to preserve the long-term value of your money, whether it is personal capital or invested in a pension plan, now is the time to consider alternatives to deposits. To discuss the non-cash options that best suit your circumstances, please contact us.

Investments do not offer the same level of capital security as a deposit account. The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.