INVESTMENT REPORT

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WHY YOU SHOULDN'T STUFF YOUR ACCOUNT WITH EXCESS CASH

By Maria Smit, Certified Financial Planner®, Brenthurst Pretoria

A question I get asked a lot lately by clients who are currently holding off from investing is: "Where should I keep my cash?" This is a very good question you should consider, not only in an attempt to beat inflation, but also to ensure the security of your money.

Cash parked in a general-purpose bank account is incredibly tempting. Not only to you, but also to criminals who are always on the lookout for easy prey. As much as we'd all like to believe that we won't get caught out in a phishing attack or scam, the reality is that it is happening to numerous people, multiple times a day, across the country.

So, why take the risk, is what I always ask.

Here's why keeping large sums of cash in a current account is a bad idea, and ways that you can lower your risk.

WHY SOME INVESTORS HOLD CASH

The past year has not been kind to investors, leaving many wondering what 2023 will bring. The year started off on a bad note, as inflation started climbing, especially after the Russian invasion of Ukraine.

Since then, markets across the globe have been in a tough bear market that relies heavily on the inflation situation improving. Which, fortunately, it seems to be doing.

The depressed market has led some clients to sit on the side lines rather than invest whilst the market is still in a downward phase. There's certainly nothing wrong with avoiding the possibility of short-term losses, as long as you have a firm intention of entering the market at a strategically timed point.

IN THIS ISSUE

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But holding back capital to deploy at strategic points is."

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As we've seen time and again, it's impossible to predict the bottom of the market. And while 'buying the dip' is a great strategy, how do we ever truly know when we've hit rock bottom? We can't.

So, trying to time the market is never really a good strategy. But holding back capital to deploy at strategic points is.

WHERE SHOULDN'T YOU PARK YOUR CASH?

If you decide to adopt this strategy, then one of the most important questions is: "Where do I park my cash?" If you're likely to jump onto an opportunity, you might consider keeping it in a current account so that it's always liquid.

However, this is not a good idea. Firstly, current accounts usually don't pay interest, so the value of your cash is constantly declining. Secondly, unsecured cash in your account is a temptation – both to you and to criminals.

Don't fall into the trap of believing that it's never happened before, so it won't happen in the future. And if it does happen, the risk of loss is much smaller if you have less cash available for the taking.

Therefore, I usually advise clients to avoid holding excessive amounts of cash in their current accounts, which then begs the question: "Where should you hold your cash reserves?" That all depends on your time horizon.

SHORT-TERM SAVING OPTIONS

A simple savings account is the first option to consider. If you feel the need, you can use an instant access account – such as a call account – to take advantage of opportunities without any delays.

A simple way to avoid temptation, or the chance of fraud, is to open a joint account on which your spouse or partner must also approve transactions.

The obvious appeal of savings accounts is that the interest helps to offset the effects of inflation. So, the better the interest rate, the better the ability to protect your buying power.

Depending on your discipline, you might want to choose a 30-day notice or fixed-term account if you feel you need a deterrent between your impulses and your savings.

LONG-TERM SAVING OPTIONS

If you're looking at longer term options – I'd say at least seven years or longer – then you need to do some in-depth planning. A simple, or even term, savings account is not the right solution.

I always advise that if you're looking to the long term then you need to be serious and speak to a financial advisor who can help you find the best solution. With such a long time-horizon it's usually advisable to have some exposure to the market, even though the market is precisely what you're trying to avoid.

You will only find the right answer by considering all your priorities and the available options. And, because there is such an array of options to consider, sometimes it's not about finding the 'best' option, but finding the 'right' one.

And you have the added peace of mind that your savings won't be exposed to the greedy criminal syndicates who are on the lookout for accounts stuffed with excess cash.

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MARIA joined Brenthurst Wealth in 2019. She is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

She has been in the financial services industry since 2015, working as a liaison between Financial Advisers and clients, assisting in all financial planning related duties.

Maria obtained a BCom Economics degree from the North West University's Potchefstroom Campus. She also obtained her Postgraduate Diploma in Financial Planning from the University of the Free State in 2019 and is fully qualified to give advice on all investment matters.

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BRENTHURST'S OFFICES WILL BE CLOSING 23 DEC 2022 & WILL REOPEN 9 JAN 2023

MAY THIS SEASON BE WRAPPED WITH CHEER & FILLED WITH *celebration* FOR THE NEW YEAR

ON BEHALF OF ALL OF US AT BRENTHURST WE EXTEND OUR SINCERE THANKS AND APPRECIATION FOR YOUR SUPPORT THROUGHOUT THE YEAR. WE WISH YOU AND YOUR LOVED ONES A FESTIVE HOLIDAY.

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