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BUILDING WEALTH SINCE 2004

## IN THIS ISSUE

*Playing it safe with your money can carry hidden risks. While cash and low-risk investments feel secure, they often fail to outpace inflation, eroding real value over time. Avoiding growth assets may limit long-term wealth, making a balanced, diversified approach essential to protect and grow purchasing power.*

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# THE HIDDEN RISK OF PLAYING IT SAFE WITH YOUR MONEY

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When markets feel uncertain, many investors retreat to the same place: cash. Money market funds, fixed deposits and savings accounts have long been seen as the safest place to park capital. There is comfort in stability. Your balance doesn't swing wildly from one month to the next, and the risk of losing money appears minimal.

But the question worth asking is this: safe from what?

Because, cash might protect the number printed on your statement, it doesn't necessarily protect what that money will be able to buy in the future.

That distinction matters more than most investors realise.

**PLAYING IT SAFE CAN BE RISKY - CASH OFTEN FAILS TO KEEP UP WITH INFLATION.**

**LONG-TERM GROWTH REQUIRES A BALANCED, DIVERSIFIED APPROACH.**



## THE DIFFERENCE BETWEEN CAPITAL SAFETY AND PURCHASING POWER

At first glance, money market investments appear to be doing exactly what they should. Recent data shows annualised money market returns of around 7.96% over three years, while official inflation over the same period averaged roughly 4.78%.

On paper, that looks like a comfortable margin above inflation. But real life rarely follows official statistics.

The inflation rate you experience personally is often very different from the number reported in the CPI basket. Consider the items that dominate household spending: fuel, electricity, medical aid, food and education. Many of these costs have risen significantly faster than headline inflation over the past few years.

The truth is that for many households, increases in the real cost of living feel far closer to double digits than the official number suggests.

The implication for you is that if your investment return doesn't comfortably exceed your true inflation rate, the result is simple: you're quietly losing future purchasing power.



## THE DOUBLE IMPACT OF INTEREST RATES AND TAX

There's another layer to the problem that often goes unnoticed: Central banks around the world influence interest rates to manage economic activity. When they want to encourage spending and investment, they often reduce rates.

While this can stimulate the economy, it has the side effect of suppressing the yields available on cash investments. In most cases, lower interest rates mean lower money market returns, and this is before tax.

Remember, interest income above the annual exemption threshold is taxed at your marginal tax rate. For many investors, especially if you're a retiree drawing income from your portfolio, this significantly reduces the net return you actually receive.

So, a money market yield that appears attractive before tax may look far less compelling once SARS has taken its share.



## WHAT LONG-TERM DATA TELLS US

The long-term performance gap between cash and diversified investments becomes clearer when you step back and look at the bigger picture.

Since March 2021, a diversified balanced portfolio has delivered approximately 74.7% cumulative growth, compared with 38.5% for money market investments and 26.3% for inflation over the same period.



## Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: South African Rand



That difference is striking and highlights a fundamental truth about investing: productive assets tend to grow wealth over time, while cash mainly preserves capital in the short term.

Equities represent ownership in companies that innovate, expand and generate profits. Bonds provide income from governments and businesses. Offshore exposure allows investors to participate in global economic growth.

These assets may experience volatility in the short term, but over longer periods they have historically delivered the growth required to stay ahead of inflation.

## THE RIGHT ROLE FOR MONEY MARKETS

None of this means money market investments are a bad call. In fact, they play a valuable role within a well-structured portfolio.

Cash is particularly useful for short-term needs. It provides liquidity for emergencies, serves as a temporary home for a deposit on a home or can act as a stabilising anchor as part of your diversified investment strategy.

The problem arises when investors treat cash as a long-term wealth strategy rather than a short-term tool. Because capital that needs to grow over three to five years, or longer, needs exposure to assets that have the potential to generate real above-inflation returns.



## THE CASE FOR DIVERSIFICATION

Diversification isn't about chasing high returns. It is about building a portfolio that can grow sustainably while managing risk.

By combining different asset classes such as equities, bonds, property and offshore investments, you're able to create multiple sources of return in a single portfolio. Some assets provide growth, others provide income, and some offer stability during difficult market periods.

This balance is what allows portfolios to navigate changing economic conditions while still pursuing real long-term growth.



## PROTECTING YOUR FUTURE PURCHASING POWER

Ultimately, investing isn't just about protecting the value of your capital today. It is about protecting the lifestyle that capital must support tomorrow. Cash may offer short-term comfort, but long-term financial security often requires a broader strategy.



Working with a professional financial adviser can help ensure your portfolio is structured in a way that balances stability with growth. The goal isn't to eliminate risk entirely, but to take the right kind of risk. The kind that allows your wealth to grow faster than the rising cost of living.

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He specialises in wealth management, including offshore investing, foreign exchange, investment management, and retirement planning. Aidan holds a BCom in Financial Planning and Economics and has passed the First Level Regulatory Examination for Representatives.

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