

The views expressed in this article are those of the author at the date of publication and not necessarily those of Woodford Investment Management Ltd.



There is a saying in the world of investment. Cash is king! In our investment approach, cash and cash flow generation, will always have an important role to play. Without cash, a company cannot pay its dividend and without increasing cash flow, it cannot grow that dividend. In that respect, cash is indeed king and it always will be.

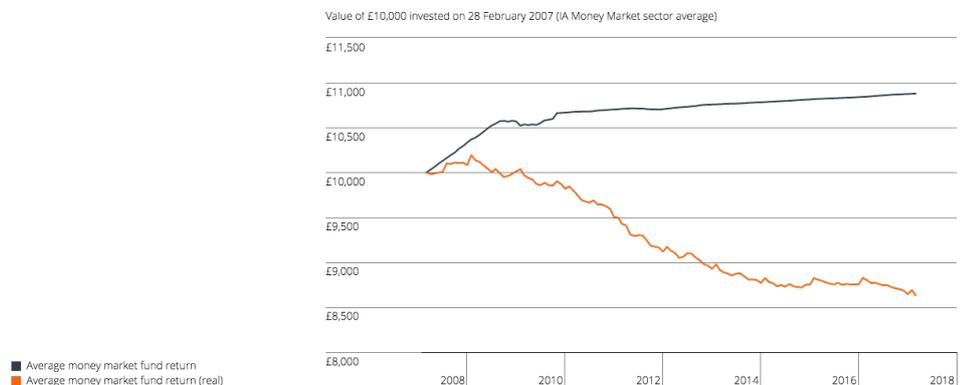
But in other respects, cash's crown has somewhat slipped in recent years. With interest rates collapsing in the aftermath of the financial crisis and staying at ultra-low levels ever since, returns on cash deposits are negligible.

Nevertheless, according to the Bank of England, a whopping £260bn is invested in cash ISAs in the UK! The cash ISA has been a very popular product for years – the ability to hide a chunk of savings away from the tax man every year has proved irresistible to thousands of investors, as did the ability to earn a reasonable level of tax-free interest. The money invested in cash ISAs remains tax-free – but these days, it is also pretty much return-free!

In fact, in real terms, the value of cash held in ISAs has been steadily eroded by inflation. As the chart below demonstrates, cash has produced a very modest positive nominal return over the last 10 years but, adjusting for inflation, the real return on cash has been negative.

**Cash investments are being slowly eroded by inflation**

Source: Morningstar, Bloomberg, Woodford to 28 February 2017



We expect that interest rates will remain low for several years to come and so, although the prospect of inflation moving sustainably higher also looks remote, we don't think there will be any respite for cash savers in the medium-term.

So why the inertia? We suspect that the holders of cash ISAs are reluctant to take on more 'risk' by moving the money out of cash and into other asset classes. Furthermore, it is plausible that many investors do not realise that they can move their money out of a cash ISA and maintain the tax-free status of their savings!

We have previously highlighted that the perception of equities as a 'risky' asset class depends hugely on your definition of risk and your investment time horizons. And it is possible for investors to switch from a cash ISA to a stocks and shares ISA without losing the valuable tax-free status of their savings. Your fund provider should be able to help you do that.

On an individual level, some people's savings are potentially not working as hard for them as they could. On an aggregated level, however, £260bn is an enormous amount of money to be tied up in assets which are not earning a productive return. It is conceivable that, if a decent amount of money was transferred out of cash ISAs towards the UK businesses that need it most, we could see a long-term economic benefit. That is after all what the stock market is supposed to do – perform the socially useful function of matching the savings of the British public to the best long-term investment opportunities.



Cash has a place in everyone's portfolio, that is not in doubt. But it should form part of that portfolio, not dominate it. There are alternatives, and some of them, UK equities included, are not as risky as you may think, as long as you're prepared to think long-term.

Not convinced? Well that's fair enough but if you'd like to look into this topic some more, there are many worse things that you could do than seek financial advice. There is a network of excellent (and independent) financial advisers around the country who specialise in making sure that your savings work as hard as they can for your own unique circumstances. [Find yourself a financial adviser here.](#)

**Please note**

References to tax treatment are based on legislation at the time of writing which may be subject to change or dependent on individual circumstances. Readers should note that this is not advice but we recommend they seek independent financial advice if unsure what action to take.

**What are the risks?**

- The value of the fund and any income from it may go down as well as up, so you may get back less than you invested
- Past performance cannot be relied upon as a guide to future performance

## IS CASH KING?

Mitchell Fraser-Jones, 31 March 2017

- The ongoing charges figure is charged to capital, so the income of the fund may be higher but capital growth may be restricted or capital may be eroded
- The fund will be invested in a concentrated portfolio of securities – the fund is not restricted by reference to any geographical region, sector or market capitalisation
- The fund may invest in other transferable securities, money market instruments, warrants, collective investment schemes and deposits – some of these security types could increase the fund's volatility and increase the level of indirect charges to which the fund is exposed
- The fund may invest in overseas securities and be exposed to currencies other than pound sterling – as a result, exchange rate movements may cause the sterling value of investments to decrease or increase

### Important information

Before investing, you should read the Key Investor Information Document (KIID) for the fund, and the Prospectus which, along with our terms and conditions, can be obtained from the downloads page or from our registered office. If you have a financial adviser, you should seek their advice before investing. Woodford Investment Management Ltd is not authorised to provide investment advice.

Woodford Investment Management Ltd is authorised and regulated by the Financial Conduct Authority (firm reference number 745433). Incorporated in England and Wales, company number 10118169. Registered address 9400 Garsington Road, Oxford OX4 2HN.

Woodford Patient Capital Trust plc is incorporated in England and Wales, company number 09405653. Registered as an investment company under section 833 of the Companies Act 2006. Registered address Beaufort House, 51 New North Road, Exeter, EX4 4EP.

© 2019 Woodford Investment Management Ltd.  
All rights reserved.