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CASH VS INVESTING: IS YOUR MONEY WORKING AS EFFICIENTLY AS IT COULD BE?

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Cash vs investing can be an important consideration when deciding where your money should sit. It sits in your bank accounts, dozing peacefully. Comfortable, readily available and absolutely not in a hurry. Cash does not usually wobble around like the stock market, but inflation can quietly reduce what it will buy.

If you want your future to offer more options and greater financial security, then some of your money may need to stop napping and start contributing towards your longer-term plans.

At Continuum, we are looking at the real difference between holding cash and investing, and how choosing the most suitable home for your money can help protect your long-term goals from inflation's slow nibbling.

You do need some cash savings

With savings, your money remains as cash and is usually easy to access.

Cash can give you flexibility and reassurance. Having an emergency fund for unexpected bills, opportunities and even last-minute holidays is sound financial sense.

Keep it in a competitive easy-access savings account, where you know it is available if you need it and can earn interest while it is left untouched. It is certainly better than having to reach for a credit card whenever there is an emergency.

But cash is not always the most appropriate place for money you will not need for many years. Understanding the difference between cash vs investing can help you consider which approach may be more appropriate for different financial goals.

Savings rates change and may not consistently keep pace with rising prices. The number on your statement may grow, while its real buying power grows much more slowly – or even falls.

Inflation – the silent thief

Inflation is the reason. The current rate of UK inflation is 3.1%. If your savings earned 3.2%, that would leave very little real growth once rising prices were taken into account.

Inflation also reached 11.1% in October 2022. At that rate, something costing £1 at the start of the year would cost around £1.11 a year later, reducing the purchasing power of money held in cash.

That does not mean all your cash should be invested. Money needed for emergencies or shorter-term spending should usually remain accessible.

But for goals that are five, ten or twenty years away, investing offers greater potential to outpace inflation, although returns are not guaranteed and values can fall.

Investing – it is easier to understand than you might think

When you invest, your money is used to buy assets that have the potential to grow in value or provide an income.

Many people invest through funds holding a mixture of company shares, bonds and other assets.

Shares provide ownership in businesses and the opportunity to benefit from their future growth and profits.

Billions of shares are bought and sold around the world every day, which can make investing appear to depend on constantly buying and selling at exactly the right time.

In reality, trying to predict short-term market movements is extremely difficult. For most long-term investors, patience and a properly constructed portfolio are more important than frequent trading.

Why investing for the long term matters

A sensible long-term approach is to spread investments across different businesses, sectors, regions and types of assets. Markets will rise and fall, sometimes sharply, but a longer timeframe gives investments more opportunity to recover from short-term setbacks and participate in future growth. Some investments may also pay dividends or other income.

Time also allows compounding to go to work. When growth and income are reinvested, they have the opportunity to generate further returns. Over many years, this can potentially make a meaningful difference to money intended for retirement, helping children or grandchildren, repaying a mortgage or creating greater financial independence.

But don't you need to be an investment expert?

There are no guarantees with investing. Values can fall as well as rise and you may get back less than you invest, particularly if you need to withdraw your money during a market downturn.

Sources

Consumer price inflation UK October 2022

Petrol and diesel price rises push UK inflation rate up to 3.1% – BBC News

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