Right on the money

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* http://www.smh.com.au/articles/2008/08/16/1218307303436.html?page=fullpage#contentSwa
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Money manager Roger Montgomery believes cash is king right now. Photo: Michel O'Sullivan.

**Good old cash is a safe port in today's stormy seas, writes Bina Brown.**

IT IS official. Since the start of the global financial turmoil a year ago, cash has been the winning asset class.

With a positive return of 7.5 per cent for the 12 months to June 30, 2008 it definitely outshone the negative 13.7 and negative 36.3 per cent returns of Australian shares and listed property, respectively.

The trend is expected to continue in the short term: CommSec says returns on cash-based investments are expected to outperform other asset classes until 2009.

While the Australian sharemarket should recover later this year, total returns for calendar 2008 are still likely to fall by about 5 per cent. In contrast, returns on cash-based investments are expected to be about 7 per cent, with fixed-interest returns rising by between 4 and 5 per cent.

While cash products clearly have their benefits, it is important to remember that most do not produce the growth needed to keep ahead of inflation, nor do they have the same tax benefits as assets such as property and shares. Interest earnings are taxed at a person's marginal tax rate.

**BEST ON OFFER**

Cannex financial analyst Peter Arnold says the best cash product to invest in will depend on whether you have a lump sum ready to invest, or if you have some money but you want to add to it and withdraw from it over time.

If it is a large lump sum and the aim is to get the highest return, and there is no need to gain access to the money, a term deposit may be a good option. The interest rate depends on the length of time you are prepared to invest it. If you need access to the money or would like to add to it regularly, similar rates can be had with an online savings account that is linked to an everyday transaction account.

"Money can be transferred back and forth, generally without sacrificing any interest. For most people this will be the most versatile way to see some return on their cash. Term deposits enforce discipline if you are worried you may unnecessarily dig in to your cash," Arnold says.

**WHAT RATES?**

BankWest has the highest online savings rate, with 8.5 per cent offered as an introductory rate until January 2009 on its TeleNet Saver product, with no minimum balance.

BankWest also offers the highest term-deposit rate of 8.7 per cent for 12 months, on balances of between $1000 and $5 million.

Most of the highest term-deposit rates are offered for one-year terms, with rates falling as the terms increase.

It is important when comparing products that you look at some of the conditions, such as whether there is a minimum balance to get the advertised rate and what happens to the advertised rate after, say, the first 12 months.

**TERM DEPOSITS**

What determines term deposit rates? Why are they lower the longer you invest and higher in the short term? Term deposits are a good way for banks to fill short-term requirements on their balance sheets, particularly in today's volatile credit market.

Term deposit rates will be lower the longer you lock in the loan. Cannex's Arnold says the fact that rates fall with longer-term loans may be due to the difficulty in forecasting where the credit market will be much more than a year ahead.

It can also be a sign that financial institutions may believe the Reserve Bank of Australia will cut the official interest rate soon, and hence be unwilling to promise high rates for too long.

**LOOK FOR INNOVATIONS**

Within the guise of cash are a number of high-interest paying products.

One such product is a Suncorp interest online saver/term deposit hybrid called the eOptions flexiRates. With a competitive rate of 7.1 per cent for the eOptions online saver, it allows customers to lock in some of their balance for up to 12 months and earn up to a total of 8.7 per cent interest.

Arnold says it is a straightforward way of earning good interest without having to take out a term deposit.

"It has aspects of a bonus saver account, which generally pays high interest if certain transaction conditions are met, such as no withdrawals in a calendar month," he says.

IMB, Greater Building Society and Newcastle Permanent Building Society all have savings accounts offering at least 8 per cent.

HOLD STOCKS, CASH IS KING

As the manager of $200 billion in assets, Roger Montgomery (above) started moving investors' money into cash last December.

Clime Investment Management currently has more than half of its assets invested in either bank bills or term deposits waiting for buying opportunities on the stockmarket.

With the official interest rate at 7.25per cent and several banks offering returns of 8 per cent in an uncertain economic and financial market environment, it is considered to be a virtually risk-free place to be.

Montgomery says: "When we made the decision to go to cash we simply could not find a lot of good quality businesses that were cheap. Companies we didn't think were the best in our portfolio we decided to sell, which increased our cash.

"We are now in a position where we can buy businesses that are cheaper than they were before or we can stay in cash. Eight per cent for six months with virtually no chance of capital loss is a pretty good return given the environment we are in.

"Until I can buy things at a 20 or 30 or 40 per cent discount to the market then it makes sense to be in cash."

Montgomery says he has no preset ideas about what percentage of his investments he will keep in cash or for how long.

"There are two alternatives: attractive investments or cash," he says. "It could all change tomorrow."

Source: The Sun-Herald