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Investments

25 February 2016

Clinging to cash

Why do Brits cling to cash, and is there a SMARTER way to invest for the future?

Investor Pulse's most interesting finding relates to how much cash Britons are stashing away in the bank.

For the last three years BlackRock has surveyed people from around the globe on topics from financial confidence to asset allocation and retirement planning. Read their analysis…

Dash for cash – BlackRock explain why cash is the British investors' comfort blanket and suggest a SMARTER way to invest.

Get the Architas view

Get the view of Adrian Lowcock, head of investing, AXA Wealth

Cash - an investor’s comfort blanket

In 2015 we talked to over 31,000 people, 4,000 of them in the UK – and revealed the results recently in the third edition of our Global Investor Pulse Survey.

Some of the findings make for happy reading. Far more Britons now save specifically for retirement than in 2014, helped by the government’s policy of auto enrolment, which made it compulsory for employers to sign many workers into a pension scheme. In fact, the number of 25-74 year olds putting money away specifically for retirement has risen by nearly a third since Global Investor Pulse began in 2013.

Sentiment has also improved, with more than half of people feeling optimistic about their financial future, a 13% increase since 2013.

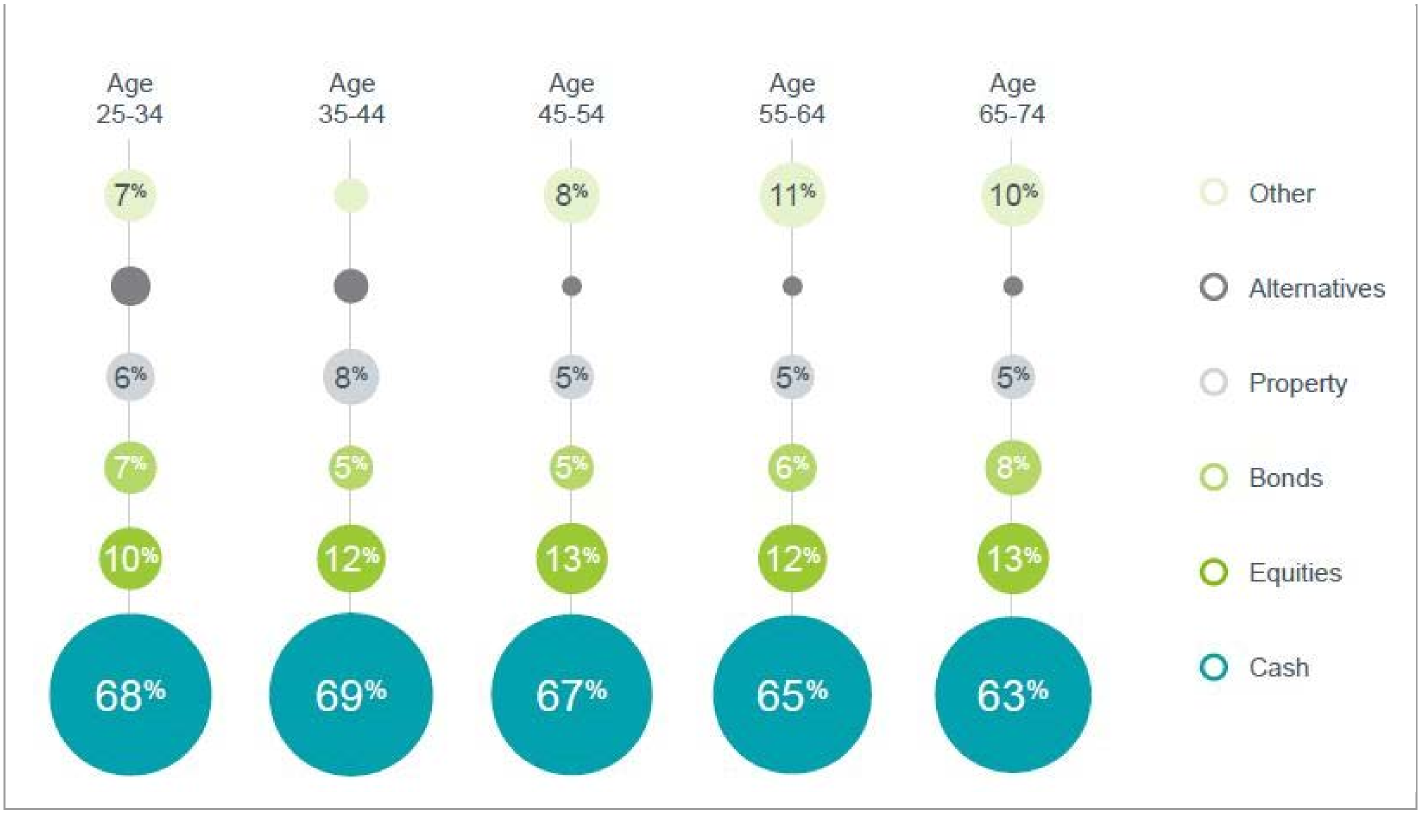
But we see new challenges, alongside the positives. Respondents this year reported feeling less confident about their financial decision-making – a potential consequence of increased choice and responsibility since the introduction of pension freedoms.

For the first time, less than half of people told us they are confident, with particular lows among women (42%) and 45-54 year olds (40%). Individuals certainly have much more flexibility – but that extra choice seems to have had the side effect of increasing their anxiety.

Aside from changes in investor sentiment, Investor Pulse’s most interesting finding relates to how much cash Britons are stashing away in the bank.

Despite the historically low rates available on cash deposits, Investor Pulse found that Britons still overwhelmingly choose to save in cash, rather than other investments such as shares or bonds.

Specifically, the average British investor holds over two-thirds of their wealth in the bank.

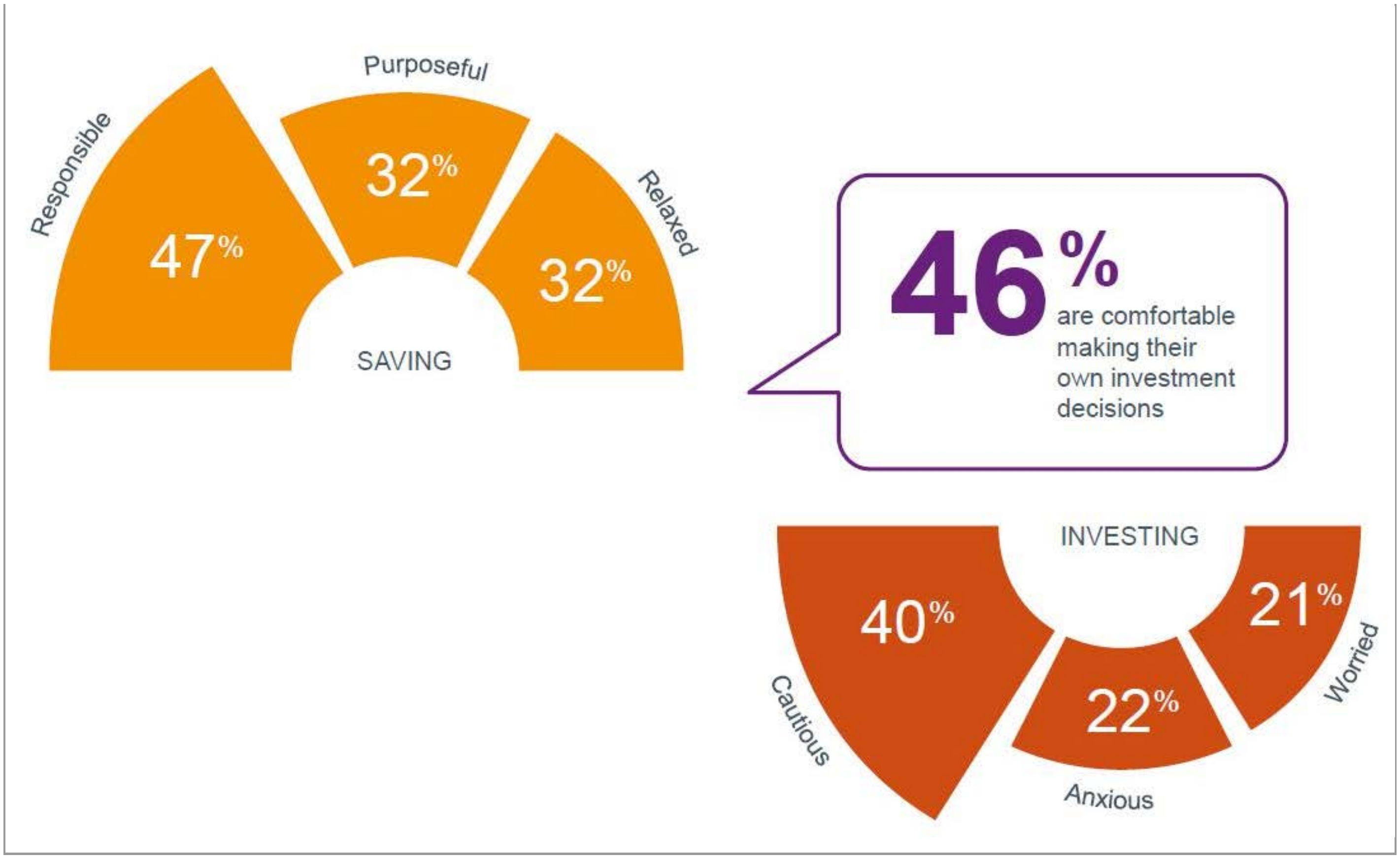


'Alternatives' refers to investments that, unlike shares and bonds, would not be found in a typical portfolio, such as commodities including oil.

Scores under 5% not shown.

What can explain this reliance on cash among British investors? One reason might be the way people feel about saving in cash versus how they feel about investing.

As you can see below, when saving respondents report feeling 'responsible' and 'purposeful'. Investing on the other hand is associated overwhelmingly with caution and anxiety.



So is all lost for British savers and investors? Does Britain's love of cash combine with super-low interest rates and investing anxiety, to create an insecure financial future?

Not if one group has anything to do with it.

Britain's 'SMART' savers lead the way

Investor Pulse identified a group of people who are 'SMART' because they:

(S) save and invest more
(M) make retirement a priority
(A) actively invest
(R) recognise the need to spread their investments, and
(T) take financial planning and advice seriously.

Nearly one in 10 Britons from all age groups and income brackets is a 'SMART'. They typically save and invest more than 10% of their salary, hold no more than 49% of their wealth in cash and nearly half of them use financial advice.

The result? SMARTs are more than twice as likely as non-SMARTs to feel positive when investing, they are much better diversified, and nearly eight in 10 feel in control of their financial futures, compared to only five in 10 Britons in general.

The lesson is simple: it pays dividends to get past one's initial anxiety. Adopting some SMART behaviours could be a great first step.

The view from Architas

"Investors could put their eggs in more baskets, with the Architas Multi-Asset Reserve funds"

In our view, investors are quite rightly continuing to look at cash as being a safety blanket for their wealth during market uncertainty, but perhaps without considering the impact of low interest rates on their deposits.

The Bank of Japan's recent move to negative deposit rates – not to mention negative rates at the ECB, Switzerland and Sweden (which were cut again in February) – is all about reducing incentives to save and encouraging spending instead. With these rates ultimately feeding through to depositors, investors can expect low returns on cash, and that's before any inflationary impacts. How long before investors are paying to keep money in the bank?

Stepping out of cash might seem like a big step, but low-risk investment solutions designed for cautious investors are available.

The Architas Multi-Asset Reserve Funds are low-risk, diversified portfolios designed for cautious investors considering alternatives to cash. The funds' underlying holdings are managed by some of the world's best investment managers and combine investments across a range of asset classes, sectors and geographies. By investing in Gilts, the range aims to deliver a yield while also offering a safe-haven quality in turbulent times. The property allocation offers further diversification, while equities give the potential to benefit from future market rallies, when they finally occur.

Architas is style agnostic. The Architas Multi-Asset Reserve funds are available across active, passive or a blend of both styles of management aiming to meet the varying needs of your clients. Creating multi-asset portfolios yourself can be difficult and time-consuming. It requires extensive research capabilities for fund selection, combined with the need to monitor and rebalance the portfolios in line with your clients' objectives. At Architas, multi-asset investing is our business. Through qualitative and quantitative research we identify the best funds from a range of leading managers and combine them in a single solution, while remaining true to the risk objectives of your clients.

The view from Adrian Lowcock, head of investing at AXA Wealth

"These funds provide access to stock markets for cautious investors"

With an increasing number of us looking to invest for our retirement, where do we go to get a decent return in 2016? Savers are in for a lost decade of low returns and with central banks taking turns to announce negative interest rates, the outlook for cash has worsened. At the same time stock market volatility is likely to put off many would-be investors.

One solution could be the Architas Multi-Asset Reserve funds. These funds provide access to stock markets for cautious investors, and target income that could be attractive to those looking to step out of cash. They hold UK gilts which offer the potential for low but attractive yield, while a diversified equity portion targets future growth. The last component is property, which has historically offered great diversification, and also provides the potential for long-term yield.

[Explore the Architas Multi-Asset fund range]

The value of investments can fall as well as rise and is not guaranteed. Your clients could get back less than they invest. Before making an investment, investors should read the Fund's Prospectus and Key Investor Information Document, which provide full product details including investment charges and risks.

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