Marketing material

Why risk money on the stock market when cash seems safer?

Schroders

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Missed opportunities

Markets have been volatile and uncertainty is high, but that can create opportunities.

By locking up your money in a cash deposit, there's a risk you could miss a significant market uplift. It's important to spend time in the market, rather than trying to time the market.

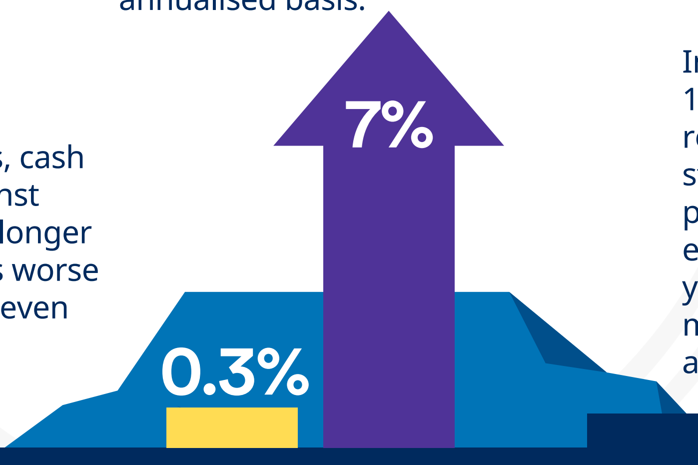
On the 11 occasions when the US stock market has **fallen by 25% or more**, it has taken on average (median) 1.8 years to recover losses. If you had moved to cash in that time, it would have taken more than double the time to recoup the losses.[1]

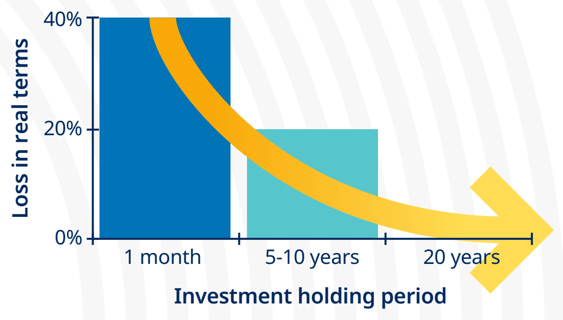
Inflation

Cash is far from a risk-free asset. That's because high inflation means the real value of cash erodes quickly, even if the cash earns the top available rates of return.

Over short periods, cash may fare well against inflation. But over longer periods, cash fares worse than investments, even when inflation is relatively low.

US data since 1926 shows that cash has beaten inflation by 0.3%. Over the same period, **equities have delivered a 7% return** above inflation on an annualised basis.[2]





Investing for one month over the past 100 years would have led to a loss in real terms around 40% of the time. By staying invested for 5-10 years, the possibility of loss falls to 20%. By extending the holding period to 20 years, investors would not have lost money over any period when adjusted for inflation.[3]

Diversification

By holding a range of different assets in a portfolio, risk is significantly reduced.

Bonds, equities, property and alternatives are good diversifiers as they all respond to market movements in different ways.

By staying in cash, you're missing out on other asset classes which are more likely to beat inflation when opportunities arise.

What are the next steps?

1

Firstly, any investor needs to **establish a long-term plan for their money**. Time horizons, risk, and financial goals all significantly influence the way money is saved and invested.

2

Secondly, **work with your financial adviser** to build a diversified portfolio with assets that are appropriate for your requirements.

3

Thirdly, **think about your own behavioural biases** and how the way you think about your money may **influence your investment style**, for better or worse.

All savers' circumstances are different, and some may have excellent reasons to hold cash. But just because savings rates have increased, doesn't mean cash is keeping pace with inflation. Long-term historic data shows stock market investments stand a better chance of beating inflation than other assets, but there may be some bumps on the way. This is where financial advice is invaluable.

[1] Sources: Federal Reserve Bank of St. Louis, Robert Shiller, Schroders. Monthly cash return 1934-2020 based on 3-month Treasury bill, secondary market rate; 1920-1934 based on yields on short-term United States securities; 1871-1920 based on 1-year interest rate. 1871-1920 data only available annually so a constant return on cash has been assumed for all months during this period. Other data is monthly. All analysis is based on nominal amounts.

[2] Source Morningstar Direct, accessed via CFA Institute and Schroders. Stocks represented by Ibbotson SBBI US Large-Cap Stocks. Data January 1926-December 2022.

[3] https://www.schroders.com/en/global/individual/insights/the-data-which-can-help-you-keep-a-cool-investing-head-in-a-crisis/