



Let cash assets work for you

Since the global financial crisis, the role of cash in a portfolio has been reappraised

SIMON HOYLE



CASH is an oft-neglected asset class. There's an understandable tendency to overlook this most liquid of assets and to focus on other, more exciting, assets.

But, if you hold a significant amount of your wealth in cash, making sure you're getting the best possible deal could result in a significantly better outcome in dollar terms.

Cash can be held for any number of reasons. It might be a short-term holding, the proceeds from a property sale, for example, awaiting reinvestment. Or it might be a long-term strategic holding, set to one side to cover the event of a margin call if you have a gearing strategy in place.

But, since the global financial crisis, the role of cash in a portfolio has been reappraised. Rather than playing a "holding" role, a place where money is parked until it is reinvested in other assets, it is being used more strategically. It has been reinvented, as it were, as a volatility dampener.

If you take investment advice from a financial planner, they'll more often than not use some sort of investment "platform" — an administration service known as a "wrap" or a master trust or master fund — to invest your money and keep track of what it's worth. That includes your cash. But there are a few issues that people need to be aware of when it comes to investing in cash via a platform.

The main thing is fees. The platform charges you a fee to administer your money. According to financial planners, a term deposit on a platform might pay as much as 70 basis points (that is, 0.7 percentage points) less than if you invested directly in exactly the same term deposit. That reflects the fee

the platform charges for its services.

It has traditionally been difficult for financial planners to do much else than suggest you take your money directly to an approved deposit-taking institution (ADI) and invest in a term deposit directly.

That's fine, but the very reason a planner might prefer to keep cash on the same platform as all your other assets is so they can keep tabs on it. They need to know if you suddenly spend all your cash on, say, a new car or a holiday or, conversely, a relative dies and you inherit a massive cash windfall. Their job is to keep your investment portfolio more or less in balance, and big changes to one asset class can have flow-on effects to all the others.

Bill Keogh, an executive director of fixed-income investment firm FIIG, says the company has developed an online term deposit investment service for financial planners that allows them to make sure they get the best rate available for investors, over the term that investors need.

It is designed to allow planners to simply and easily rollover a term deposit investment when it matures without necessarily having to fill out mountains of paperwork every time. And, critically, investors whose planners use this service get exactly the interest rate offered by the ADI: there's no fee associated with the FIIG service. (This is because, in effect, the ADI pays FIIG to raise funds for it.)

FIIG has designed its system to provide a data feed directly into the software that financial planners use to manage their clients' affairs.

So, while the cash might not sit on the same platform as your other assets,

the adviser can at least monitor it and factor it into future investment and asset allocation decisions.

But if you decide that its ultimately simpler to take care of your term deposits yourself, and bypass intermediaries, there are still ways of getting the best possible interest rate.

Damian Smith, chief executive officer of the financial comparison website RateCity, says you should never assume that what a bank offers you first-up is the best they can do.

"It's absolutely clear that there's a difference between advertised rates and the best rate you can get with a face-to-face chat with the bank," Smith says.

He adds that sometimes a bank will sweeten the rate if they want to keep you as a customer.

Sometimes they'll be looking to borrow money for specific terms, and if you match up with that need they're more likely to offer you an attractive rate. But you must be prepared to take your business elsewhere if you don't get what you want.

"Have in front of you what your alternatives are," he says.

"If we look at a one-year term deposit, Bankwest is paying 6.3 per cent; Rabobank is paying 6.6 per cent.

"If you're a Bankwest customer, the best way to start the conversation with Bankwest is to know that Rabo is offering 6.6 per cent. Don't take their first offer. But you must be prepared to walk away."

Simon Hoyle is editor of Professional Planner magazine.



'Don't take their first offer. You must be prepared to walk away'

YOUR TERM DEPOSIT SHOPPING LIST

Six-month term deposits	12-month term deposits	Three-year term deposits
Rabodirect - 6.40%	Laiki Bank - 6.70%	Bank of Cyprus Australia - 6.80%
UBank - 6.31%	RaboDirect - 6.60%	Service ONE Members Bank - 6.75%
Heritage Building Society - 6.25%	Citibank - 6.50%	Bananacoast Community Credit Union - 6.70%
Bank of Queensland - 6.20%	ING Direct - 6.50%	Hume Building Society - 6.60%
MyState Financial - 6.20%	SGE Credit Union - 6.50%	AMP Banking - 6.50%

Rates as at April 13. Based on balance of \$25,000, non-bonded institutions only. Source: RateCity.com.au