

Safe deposit?

When sharemarkets experience a downturn, investing in cash seems to be the safe option. While that may be the case in the short term, if you're investing for the long term you may still need to consider growth assets.

A look at cash in isolation

The interest you receive on a cash investment is generally linked to sharemarket and economic conditions. When times are bad, interest rates are low. When the economy is better and sharemarkets are performing well, interest rates tend to be higher.

When you invest in cash you probably reinvest the interest you receive. But as you know, inflation means that the actual value (what you can buy with your dollars) is eroded. For example, what you could buy for \$100,000 in 1985 would cost you substantially more than that today. When you consider the tax you pay on investment income at your marginal rate and the relatively low interest rate, your cash investment in real terms may not be growing much at all.

You need income and growth

When you invest in growth assets such as shares, you get income from the shares by way of dividend payments. If you hold shares for the long term, they also have the potential to grow in value over time.

Although we're still experiencing uncertainty in the sharemarket, history tells us that this is part of a normal cycle and there's every chance that recovery will more than compensate for the losses. This means long-term share investors may potentially receive a much higher return than cash investors.

Experts predict that the sharemarket is at (or close to) the bottom of this cycle, which means many shares may be at a

bargain price. If you're invested solely in cash when the markets do recover, you may miss out on returns that are potentially much higher than cash can provide.

Just how long is long term?

That depends on where you are at with your investments. If you're in your twenties or thirties and you think of long term as being when you retire, you're looking at 20 years or more of investing. Even if you're close to retirement, you'll still need to continue growing your wealth if you want your money to last through your retirement years.

As the chart shows, a lot can happen in 20 years, and the performance of different asset classes is varied.

Benchmark returns June 1988 to June 2009

There's a place for cash as part of your investment portfolio, but to grow wealth you should also consider investing in growth assets such as shares and property. Talk to your financial adviser about the most appropriate mix of assets for your portfolio to suit your needs and investment timeframe.

