Feature / Oakwood

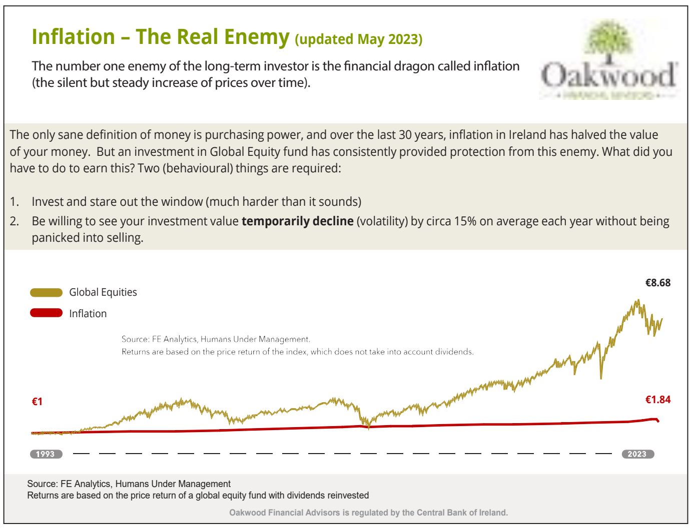
Put your idle money to work

For too long, investors in Ireland have left their spare cash sit in bank deposits earning meagre to negligible amounts of low interest. In the main this has been down to lack of choice, or in some cases an indolence (an understandable stance to a degree) but how times have changed. Dramatically, at that! – writes **Ronan McGrath**

Bank deposits by way of interest, are still offering minimal returns. Thankfully, the negative interest rates being charged by the banks, for leaving your money in their "safe" keeping has ceased. However, inflation is projected for 2023 to come in at over five per cent, down from over eight per cent in 2022. Inflation over time erodes the value of our deposits.

Inflation – The Silent Erosion of Purchasing Power

The only sane definition of money is purchasing power. It is only good to the extent that it can buy more in the future than it can today. The major challenge we face is that inflation corrodes this purchasing power. **See chart 1.**



Here's how you protect the value of your cash

The long term solution is equities. Investing in a diversified global equity fund offers the opportunity to invest and be owners in real, profit producing, productive companies. If we look back over a 30-year time period returns would come in at over eight per cent per annum. However, not all investors are comfortable with the short term volatility that comes with equity investments.

An alternative solution is to look at a Money Market Fund. **Currently there are Money Market Funds offering a gross return of 3.21 per cent p.a. (which would net out at 2.21 per cent after all policy charges are deducted).** If a further ECB rate occurs in June this rate should also increase (see Chart 2).

Here's what it is, in simple terms.

A Money Market Fund is a fund that invests in very short-term, high-quality debt issued by governments, financial institutions, and well established, profitable, companies. These characteristics make Money Market Funds a low-risk investment option in which to invest your surplus cash over a short period of time. These market funds are primarily used to preserve capital and enjoy a high degree of liquidity with daily pricing. This means there is no lock in period and you have full access.

Cash is no longer reliably safe!

Money market funds are a low risk, liquid alternative to cash in the bank with return closely linked to real interest rates (chart 2). They offer an opportunity to avail of the higher ECB rates that the Irish banks do not offer. This money is invested in a highly diversified range of securities, ones with very high credit ratings. Their real appeal is when interest rates are rising. That is when the short-term securities mature and are then reinvested at higher rates.

Money market funds invest in a highly diversified range of securities, issuers, and maturity profiles, whilst maintaining very high credit quality.

The opposite is the case with money deposited in banks. Their deposit rate is decided by the individual bank and their own funding needs to support its balance sheet. Recently, you may have noticed that the rates offered by many Irish banks have not yet risen in line with European Central Bank policy rates.

What are the risks?

Money Market Funds are not risk free. They may expose an investor to counterparty risk, liquidity risk, and credit risk. However because of the wide diversification strategy of money market funds it mitigates many of potential shortcomings that can arise.

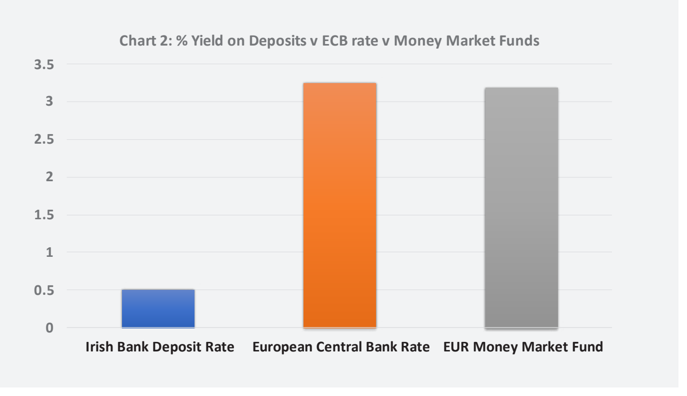
Bank deposits, on the other hand, are exposed to the pressures of that one financial entity. The turmoil of 2008, and as we have seen with recent collapse of Credit Suisse and Silicon Valley Bank, individual banks are not without their risks. In many cases Money Market funds have a higher credit rating than any of the Irish banks.

Be clever, go with the low risk option

As has been pointed out above, money market funds are considered very low risk. But the risk of loss is not zero. Values can change day to day. However, because money markets have become increasingly regulated over the past fifteen years, this has allowed greater confidence and stability in them.

Put your money to work

Irish deposit Interest rates remained close to zero for almost a decade. As a consequence the value of your hard earned cash is being eroded. Money market funds offer an opportunity to put your spare cash to work with . That way you take advantage of higher Central Bank interest rates (ECB rate is 3.25 per cent). Attractive yields on low-risk assets are back!



Avail of Experience and Expertise

As we have said in the past, work closely with an experienced, trusted financial advisor who will structure an investment portfolio for you or a plan towards your retirement. One that meets your individual needs and asses your risk tolerance. IMT

Please note: This article does not constitute financial advice. Each individual's circumstances and risk tolerance differ and needs to be individually assessed.

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Information

Oakwood Financial Advisors are specialist financial advisors to the medical profession, with a unique understanding of both the GMS Pension Scheme and also the Health Service Executive pension benefits.

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