Is cash really king?

A guide to choosing between savings and investments

The power of good advice

Life is full of decisions and choices that shape our future. Making great decisions requires as much certainty as possible – the kind of certainty that comes from good advice. Our advice is backed by almost 200 years' experience in helping people and businesses flourish.

At Evelyn Partners our mission is 'to place the power of good advice into more hands'. We believe that more people and businesses should have access to good advice, regardless of their size or wealth. We are committed to raising the standards of good advice and to extending its reach.

We are the UK's leading integrated wealth management and professional services group. We look after the combined wealth and tax needs of our clients and provide specialist accountancy, assurance, tax and advisory services for businesses. Our clients range from online investors to those requiring bespoke wealth management, and from charities to entrepreneurs and corporate businesses.

All our advice is delivered by people who care, who go further to understand your needs so they can help you make those big decisions with ease and confidence, bringing you closer to what matters *most to you.*

That's the power of good advice.

Contents

Welcome

When planning for the future, putting your cash in a savings account may seem sensible, particularly in light of current interest rates. But are cash savings really the best way to achieve your financial goals?

Cash savings and investments can help you build wealth, but they work differently and offer different rates of return and risk.

This guide will help you understand the differences, so you can choose the best option for your needs.

Important information

The value of investments, and the income derived from them, can go down as well as up and you can get back less than you originally invested. This is not advice to invest, or to use any of our services.

Low risk, low returns

A savings account is a simple and low-risk way to earn interest on your money. With a savings account, you deposit money with a bank or building society, and they pay you interest on that money. Usually, the interest rate is fixed, so you know exactly how much you'll earn over time.

Most advisers will tell you that savings accounts are a good idea for a 'rainy day' - money you might need to access quickly in the event of an unexpected expense or a change in your employment status. Typically, on average, people choose to keep between six and twelve months' worth of net income deposited in easy-access or fixed-term savings accounts. This makes savings accounts a good option for short-term savings goals or for money that you cannot afford to lose. However, if you have more money than that saved, you may want to consider investing with the intention of achieving more growth.

Savings accounts are backed by the Financial Services Compensation Scheme (FSCS). The Scheme protects your money up to £85,000 per institution if the bank or building society fails. However, cash savings can end up costing you more in the long term in real terms:

- Inflation: your savings are vulnerable to inflation. For example, if you deposit £10,000 in a savings account with a set interest rate, you will receive interest payments, but equally, your cash may not grow in line with inflation, so you actually end up losing purchasing power in real terms
- Opportunity cost: when you put your money in a savings account, you lose the potential for your cash to grow as it is not actively invested
- Low returns: cash savings can offer returns, however, these tend to be limited as they are not designed for long-term growth

This is a contrast to long-term investments.

Types of investments

If you're looking to use your savings to reach your financial goals over the longer term, and can afford to take more risk, you may want to consider investing. Some types of investments are focused on long-term growth, which you may want to consider if you are thinking about building up a nest egg for your retirement, passing wealth on to your children or purchasing a property in the future. Others can be used to generate income, fund your children's education or retirement. A financial planner can guide you through the combination of investments that could best suit your goal.

Here are a few examples of the most popular types of investments.

Stocks and shares

When you invest in the stock market, you're buying a share of a company and providing the means to help it grow. This is usually paid back to shareholders either via dividends or higher share price, or a mix of both.. Some investors like to build up a portfolio of shares in the companies they believe will grow the most or provide the most income, buying and selling different shares as the market changes. You can do this yourself through online investment platforms like Bestinvest (our partner brand), or you can choose to work with an investment manager who will agree a strategy with you and work to achieve your goals.

Bonds

Bonds are issued by companies and governments, and like savings, they pay an interest rate. However, because they can be traded between individuals and institutions, they also have a value, just like shares, which can go up and down. Typically, bonds are perceived to have less volatility than shares. Most investment portfolios contain a mixture of bonds and shares, depending on the investors' objectives and risk appetite. Some people make this choice themselves, but many, particularly those with more than £250,000 to invest, will choose to work with an investment manager to get this balance exactly right.

Mutual funds

Mutual funds are baskets of shares, bonds and other financial instruments that you can invest in, along with many other investors. They can be a good way of providing a balanced portfolio in line with some specific investment objectives. However, they will not be designed with your circumstances in mind.

Exchange-traded funds - ETFs

ETFs are like shares in that they are traded individually on the stock market and their value can fluctuate from minute to minute. However, they are like mutual funds in that they can be made up of a basket of shares, bonds and other financial instruments. Generally, ETFs are for the more experienced investor as they can be riskier and more complex. Those new to investing may want to use an investment manager to support them in exploring these investment opportunities.

Benefits of investing

Investing is sometime referred to as 'active money' as your money is put to work for you. The benefits of investing can include:

- **Higher returns:** historically, the stock market has provided higher average long-term returns than savings deposited with banks and building societies
- **Diverse portfolio:** by investing in different assets, you can spread the risk and reduce the impact of an individual investment on your portfolio
- **Achieving your financial goals:** investing can help you meet your long-term financial goals, for example, funding your children's education or planning your retirement. As it's a long-term investment, it can protect your wealth against inflation, unlike cash savings, whose value can erode over time
- Dividends and capital growth on investments may be subject to tax, just like interest from savings accounts. However, there are ways to make your investments tax efficient:
  – ISAs: you can invest up to £20,000 per tax year in stocks and shares ISAs, which means that any income or growth from that investment is not subject to tax. You can also move existing cash ISAs into investments and retain that benefit on previous year's ISA allowances

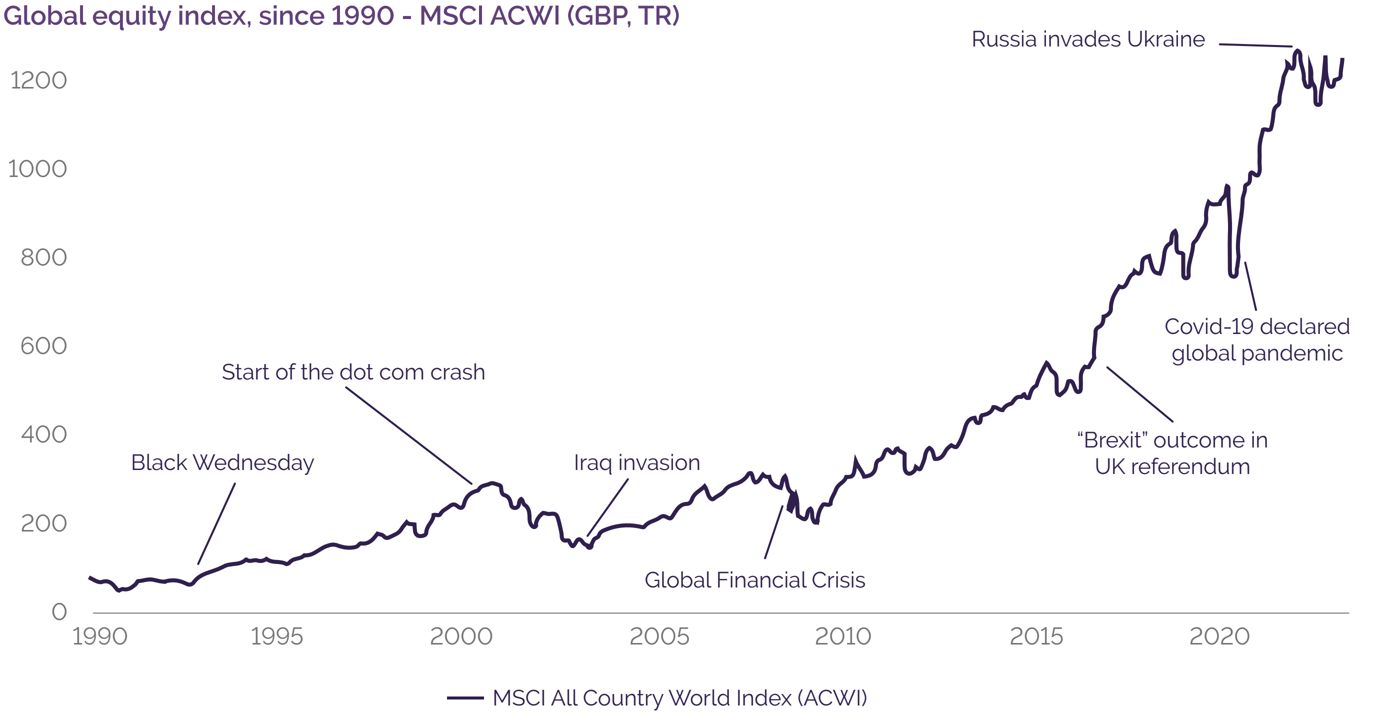
There are also many other ways investments can be a tax-efficient choice. A financial planner can help you navigate these opportunities.

Investing brings risk. Markets can be unpredictable, company earnings can vary and in some cases businesses may go bankrupt. You may get back less than the amount invested. That's why it's important to look at the broader picture of your tolerance to risk, circumstances and objectives. A financial planning and investment management expert at Evelyn Partners can help you do this.

Despite the risks, historically, long-term investments offer the possibility of growth at higher rates of return than savings accounts. For example, someone who invested £1,000 in the stock market in 2000 would have had assets worth £2,597 by 2023.[1] The same amount earning an average interest of 4% would be worth £2,465.[2]

Taking a long-term view – global equity price level since 1990

Global equity index, since 1990 - MSCI ACWI (GBP, TR)



Source: Refinitiv Datastream/Evelyn Partners, Data as at 13 Feb 2023

[1] Refinitiv/Evelyn Partners. MSCI IMI UK, performance is total return in pounds sterling from 1 Jan 2000 to 23 June 2023.

[2] Evelyn Partners

Should you put your money in savings or should you invest?

Ultimately, it depends on your financial goals and risk appetite.

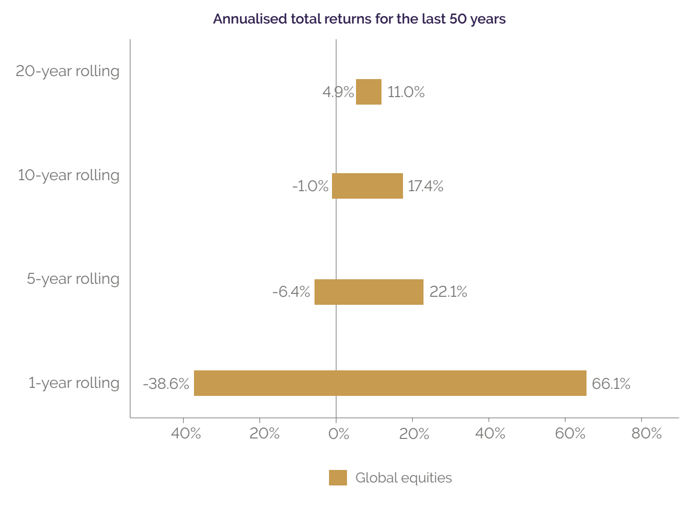
Here are the key things to consider:

- **Time horizon:** a savings account can give you relatively quick access to your money, so you can meet short-term financial goals such as buying a house or for emergency funds. However, cash in a savings account is vulnerable to inflation, so your money loses value over time
- **Financial goal:** if you're looking to build wealth over the long term, you may want to consider investing. Investments offer the possibility of growth at higher rates of return than savings accounts. For example, someone who invested £1,000 in the stock market in 2000 would have had assets worth £2,597 by 2023.[1] The same amount earning an average interest of 4% would be worth £2,465.[2] There's always the risk of losing money when you invest. However, you can spread out this risk by having a diverse portfolio. That way, if one investment isn't doing well, you have the other investments to help you offset the loss. At the same time, it's worth noting that there's no guaranteed return on your investments; you may lose money, and there's no way to predict future performance
- **Risk appetite:** the main advantage of investments is that they offer the potential for higher returns than savings accounts, even if they are riskier and require a longer-term commitment. If you are risk-averse, cash savings may be the best option for you

When it comes to your financial goals, it's best to think long term. While investments tend to deliver a higher return than cash savings, you should probably consider having some cash reserves in case of unforeseen bills or emergencies. That way, you have the best of both worlds. The key challenge is ensuring you have the right mix of investment portfolios and cash reserves to help you meet your financial goals. This is where a professional financial planner and investment manager can help – they'll confirm your risk profile and build an investment strategy that's specifically tailored to you.

Investing for the long-term

Range of equity and bond returns in sterling terms

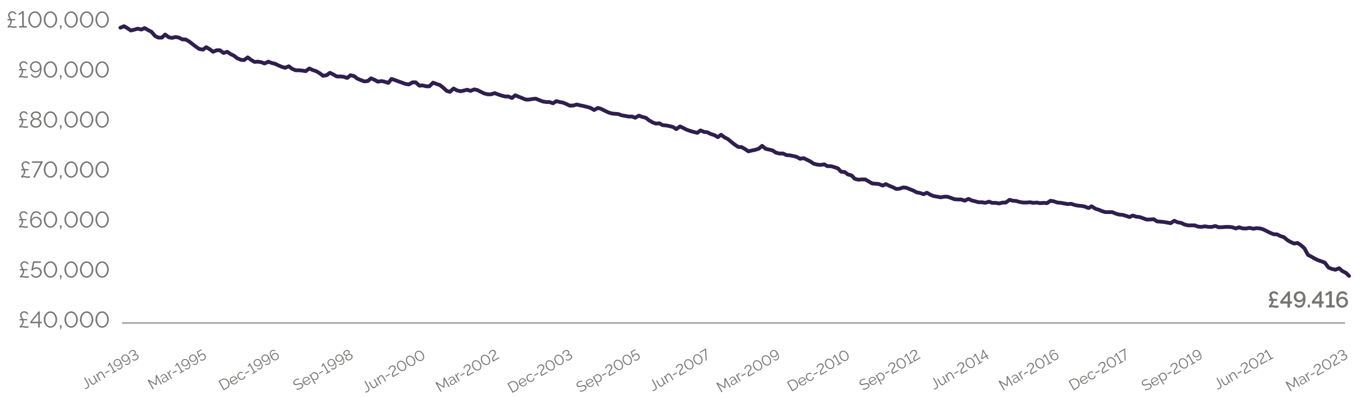


Source: Refinitiv Datastream/Evelyn Partners, Data as at 30 June 2023

[1] Refinitiv/Evelyn Partners. MSCI IMI UK, performance is total return in pounds sterling from 1 Jan 2000 to 23 June 2023.
[2] Evelyn Partners

Investment risk and return – impact of inflation on cash

The real value of £100,000 after inflation



Source: Morningstar Direct 2023 and Evelyn Partners
Effect of inflation: Consumer Price Index, Real return of £100,000 (excluding interest) - 20 years to 31 December 2022

Could investments be right for you?

- You have savings worth more than six months of your net income
- You want to grow your money to achieve future goals
- You can put that money aside to achieve long-term growth and can afford to lose some of that money in the short term
- You want your savings to help support you during retirement or to fund a big expenditure in the future

Good advice, tailored to your financial goals

If you want help with managing your money and investments, our experts can help.

Book an initial, no-obligation consultation by visiting www.evelyn.com/request-an-appointment or calling 020 3131 5203.

Important information

By necessity, this briefing can only provide a short overview and it is essential to seek professional advice before applying the contents of this briefing. It does not constitute advice nor a recommendation relating to the acquisition or disposal of investments. No responsibility can be taken for any loss arising from action taken or refrained from on the basis of this publication.

Please remember the value of investments and the income from them can fall as well as rise and investors may not receive back the original amount invested.

Past performance is not a guide to future performance.

Prevailing tax rates and reliefs depend on your individual circumstances and are subject to change.

Bonds issued by major governments and companies will be more stable than those issued by emerging markets or smaller corporate issuers; in the event of an issuer experiencing financial difficulty, there may be a risk to some or all of the capital invested. Historical or current yields should not be considered reliable indicators of future performance.

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