Should I keep cash or invest?

Many people are taught from a young age that "cash is king." From tooth fairy money to allowances and first paycheques, there are few things as gratifying as seeing our cash balances rise over time (whether they're held in a piggy bank or a bank account). What many people may not learn until later in life is that holding too much uninvested cash can be counterproductive.

So, what's the issue with holding uninvested cash and what can you do about it? We can help explain.

Cash may not generate meaningful returns

The biggest downside to holding cash - is that it doesn't increase in value over time on its own. While you may make a small amount of interest by holding your money in a savings account, and you can lose money in the market, many investment options have historically outperformed savings account–related interest. Although past performance is never a guarantee of future results, many mutual funds have averaged better than 5% return over the last 10 years[1]. Some have delivered higher returns, although they would also have come with higher risk. The point is those investments would have outperformed the zero to 2.5% or so you might earn in interest in a traditional savings account.

Cash does not keep up with inflation

Since cash doesn't rise meaningfully in value, it may not keep up with inflation. Inflation refers to the annual increase in the price of goods. Historically, the cost of everything from groceries to clothing rises between 2% and 3% per year. Here's an example of how inflation could decrease the value of your cash:

Let's say you plan to buy a new computer next year and so you put $1,000 aside in a bank savings account to buy a new PC, which also costs $1,000. At the end of the year, you might have about $1,010 in the account with the bank providing 1% interest. But, if inflation rises by 2%, then the PC might now cost $1,020 — which is $10 more than you saved. Now think about all the things you want to do in retirement and how much it could all cost in the future if inflation continues to rise by 2% each year. If your money is in cash versus market-based investments that have the potential to generate higher returns, your savings may not cover your future cost of living.

Holding cash in a bank chequing or savings account over time won't increase much in value. If it does, it rarely keeps up with inflation. A better option to consider might be to put your money in a market-based GIC or Mutual Fund—where returns can be potentially higher. Learn the differences and details in **this interactive video**.

Why you should consider keeping some cash

If cash can't generate enough returns and it can lose purchasing power over time, then why hold any at all? Cash can be ideal for short-term or emergency savings. If you know you'll need access to your money within a year, then it can be worth keeping cash around. Maybe you know that you'll be doing a renovation in December, and plan to start saving in January. You can put that cash in a bank savings account, where it has no chance of losing value in the market. Having easy-to-access emergency savings is important, too. For example, if you unexpectedly need a roof repair, it's going to be faster and easier for you to tap into a savings account. But, for any longer-term savings, it could make more sense to put those funds in the market.

How you may be able to grow your cash

How can you grow your cash savings? You might consider investing in a **mutual fund**. The type of fund you invest in will depend on a variety of factors, such as how many years you have until retirement, your tolerance for market risk, your short- and long-term financial goals and more. It can be a good idea to **talk to a personal banker** to determine which products would be suitable for your situation.

Invest at your own pace

If you're sitting on a lot of cash now, and if you're still feeling uncertain about investing it all, then you may want to consider the benefits of dollar-cost averaging. Dollar-cost averaging applies to different types of investments but is commonly used for 'pooled' types of investments such as **mutual funds**. Dollar-cost averaging allows you to put a little bit of money into a mutual fund every month rather than a lump sum. For example, if you were to put all your money in at once and the financial market were to tumble a week later, your portfolio value could fall by a lot. Instead, by spreading it out you'll take on less short-term risk. You may lose out on some gains, but it's more important that you're investing on a regular basis.

As you can see, cash isn't quite the king some people have made it out to be. Everyone loves to accumulate more money, but it can be even better to put it into an investment vehicle where it has the potential to grow. Talk to a personal banker to help you decide how to invest that cash.

We can help you get started

Investing doesn't have to be complicated. From growing your money to planning for the future, we have a range of investment options for you.

Explore our **registered plans and investing products**.

Legal

[1] TD Comfort Portfolios. www.td.com/ca/en/asset-management/funds/solutions/portfolio-solutions/comfort-portfolios/ Accessed Sept 11, 2020.

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