

Value drives dash for cash

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Published in the Australian Financial Review – 16 Jun 2004

The Australian stockmarket is at record highs and it is becoming increasingly difficult to find value. Bonds look shaky as we move into a higher interest, higher inflation environment. And property is finally coming off the boil.

The stand-out asset class has to be cash.

Indeed, allocations by growth fund managers to cash, as revealed by InTech's monthly asset allocation survey, have been climbing steadily for the past two years or so. While the average was just 4.5 per cent in November 2002, it stood at 5.8 per cent at the end of last month. But even this was lower than the March peak of 7.3 per cent.

The extra allocation to cash has come at the expense of Australian resources shares, property and international bonds in a strong indication of how fund managers view the prospects of these asset classes.

Peters MacGregor, the boutique fund manager, currently has an enormous 65 per cent of its assets in cash, so concerned are its managers about the lack of opportunities elsewhere. "The situation differs significantly from that at the peak back in 2000 where there was a polarised market, with some asset classes offering good value and others overvalued," Wayne Peters, the firm's founder, says. "Now every asset class we look at seems to be fairly overvalued.

"We feel cash is quite an attractive asset class at the moment: there's no risk of capital loss and the returns are likely to increase. We are earning 5.5 per cent on our short-term cash position and in the current markets that's not a bad return, especially if interest rates start heading north."

But it is not just fund managers that have access to these high rates — investors who take the view that now is the time to increase cash holdings can find similar rates within online savings accounts and cash-management accounts and trusts.

The table shows the average internet account pays 3.81 per cent on a \$500 minimum balance, 4.39 per cent on \$2500 and 5.03 per cent on \$5000.

The highest returns are from Citibank's Online Cash Management account, which pays 5.4 per cent irrespective of the balance. ING offers the next-highest rate at 5.25 per cent.

But it's worth noting HSBC's Online Savings Account, which pays 4.5 per cent on balances of \$2500 or more, is slightly different from the rest in that it offers the full functionality of a working account, including a cash card and branch access. Suncorp offers something similar, with a higher rate of 5.25 per cent on all balances, but levies a monthly fee. Because this is a sub-account of an ordinary account, it is not included in the table.

For larger sums, there is little reason any more to tie up money in term deposits; rates are on average no better than cash-management trusts or accounts so do not justify the loss of flexibility.

The average bank-operated trust or account pays 3.15 per cent on \$25,000, 3.59 per cent on \$50,000, 4.11 per cent on \$100,000 and 4.42 per cent on \$250,000. The applicable rates for building society-operated accounts are 3.4 per cent, 3.82 per cent, 4.44 per cent and 4.46 per cent.

For \$25,000, the best rate from a bank-operated cash-management trust or account comes from BankWest, which will pay 5 per cent. The rate rises to 5.25 per cent for \$250,000.

With regards to building society- operated cash management accounts and trusts, The Rock's cash management account pays the most, 4.75 per cent, for balances of \$25,000 and above.

The reason these rates fall short of the best online savings accounts is that they come with significantly more flexibility. InfoChoice general manager Denis Orrock says the only real like-for-like comparison with cash management accounts or trusts is the HSBC online account mentioned earlier. Many straight online accounts charge fees for withdrawals, although the first two per month with Citibank are free, he adds.

However, not everyone is convinced that now is the time to make a dash for cash. While Andrew Korbelt, senior consultant at InTech, concedes that Australia's cash returns are high compared with the rest of the world, he warns against following the fund managers' lead and trying to time the market.

"Cash will probably be the lowest returning asset class over the long term," he says.

For this reason, Korbelt recommends portfolio weightings of no more than 5 per cent where the investment horizon is longer term and higher weightings of 20 per cent to 30 per cent only where the investment horizon is just three years.