Smart Money

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Cash the new king of money makers

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CASH has bounced back as a lucrative investment destination after years of low returns.

It has become easy to earn interest rates above 7 per cent simply by having money sitting safely in the bank. Compare this with the performance over the past six months of shares – down 9.2 per cent – and property trusts – down 29 per cent – and cash has certainly been crowned king of the earners.

With interest rates widely tipped to rise again tomorrow, cash's short-term outlook is even brighter.

However, financial experts say this does not mean it's now time to strip your investment portfolio or superannuation of shares and property trusts and switch all your money to the safety of cash.

"You have to be diversified," said Adelaide financial strategist Theo Marinis.

He said people who moved everything to cash during the last share market downturn six years ago and left it there missed out on four years of massive gains. And in 2002 and 2003 emerging economic giants China and India were not yet showing their hunger for Australia's natural resources as they are today.

"Economically we are in an absolute sweet spot. China and India's growth is unprecedented. It's bigger than the industrial revolution," Mr Marinis said.

"Cash has never been king in the long term and it certainly won't be over the next 20-30 years," he said.

Two key factors are driving the resurgence of cash. Official interest rates have climbed 10 consecutive times since 2002, and more rises are almost certain. The Reserve Bank has said it will keep lifting rates if consumers continue their big spending habits which fuel higher inflation.

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The other factor has been global credit problems sparked by the subprime mortgage collapse in the U.S. This has pushed up the global cost of money that banks borrow from investors to fund their loans, so they are now trying to fund more of their loans using deposit accounts.

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To get more deposits, many banks have lifted their deposit rates by more than the RBA rises in the past six months, by up to 0.5 per cent on term deposits and online savings accounts.

Community CPS Australia chief executive Kevin Benger said financial institutions were unable to get competitively priced funds from their usual sources.

"They have gone back to the traditional source of funds – deposits. Everybody's competing for a small amount of money," Mr Benger said.

The winners have been retirees and those without mortgages who are enjoying their highest deposit rates in 12 years. Last week, South Australians could get six-month term deposit rates at 8.15 or online accounts at 7.5 per cent.

"It's a point that's often overlooked. There's a lot of self-funded retirees who rely on term deposits for their annual income – it's a low risk option," he said.

Adelaide Bank general manager of retail banking John Oliver said deposit rates may remain strong short term.

"There's a lot of competition in the market at the moment," he said.

"There are expectations that there will be further interest rate rises during the year. As a result of that, at most banks they will be passed onto depositors.

"The outlook for 2009 seems to be that rates might come back a bit."