

# Life Matters



Ellen Schafer

## ***Holding some cash***

Holding cash is a very important component of any investment plan.

A lot of people do not see any value in holding cash other than the interest it earns in the bank and if they have debt they might even think it more important to reduce their debt... *but even that's not always the best decision.*

### ***The only Legal Tender***

It's important to remember that money is the only legal tender in our society. For example you cannot spend shares, real estate, good will or even gold for that matter.

Only cash puts food on the table, pays the electric light bill and fills the petrol tank in the family car. No matter how many quality assets you may have it is a good idea to remember that many of them are not liquid and when the chips are down (*things are not going the way you expected they would*) if you have cash around - *you will breathe a lot easier.*

### ***An Opportunity Account***

Cash has another quality that is often overlooked. Having cash readily available can quite often offer an unprecedented opportunity. For example right now Australia's top 200 companies (ASX 200) have dropped in value by more than 20%. Historically share markets have recovered over time and this current situation may only be temporary, so what an opportunity to buy the best shares in what is arguable the best country in the world at a discounted price! *Bargains just don't get any better than that.*

### ***Security blanket***

More important though than any of the above is the '*feeling*' of security that having sufficient cash reserves represents.

Really seasoned investors who create wealth through using other people's money (*borrowing*) always carry a good supply of cash reserves. They know that the most important thing about wealth creation is to hold down good quality assets over at least a seven year period and more often than not they use borrowed funds to secure those assets. How much better would you feel about borrowing to buy a growth asset if you knew you had at least one year's worth of loan repayments sitting in the bank?

If you intend to maintain your standard of living well into your retirement you still have to have exposure to volatile growth assets like shares and property. Wouldn't it be easier if you knew you had at least 2 or maybe even to 3 years of income set aside in cash? That would make share market volatility (*such as we are experiencing now*) either a great opportunity for you, or at worst, nothing to be concerned about.

### ***Where to hold cash reserves?***

There is an old axiom in the investment world that says that the higher the return the greater the risk. We don't think that you should be taking *any* risk with your cash reserves. Your cash reserves are the buffer between you and the volatility of the share and property markets... your cash is what keeps you at peace and allows you to sleep at night when all hell breaks loose in the markets.

If you get greedy over earning a couple of extra percent you could put your peace of mind at risk *and nothing is worth that.*

### ***Free education seminar***

On Tuesday 1st April at 6pm we are holding a free investment seminar in our Buderim Office which will explain how cash reserves and shares and property investments are related. If you have a partner you should both attend. Seating is limited but you can reserve your place by ringing Linda on 5445 6044.



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The above is general information and should not be applied to your personal finances without advice from a qualified Financial Planner.

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