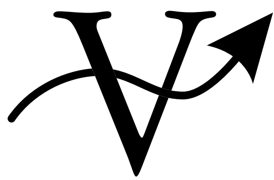


Voyage Financial Planning

Voyage Financial Planning,
Basepoint Unit 56, Premier Way,
Romsey, SO51 9AQ

T: 023 8110 2094
E: info@voyagefp.co.uk
W: www.voyagefinancialplanning.co.uk

Investing isn't a one-size-fits-all approach

Why timing the market could be holding you back

Are you considering delaying your next investment until the market drops? It's a common notion, particularly among new or even experienced investors. The strategy of 'timing the market' – buying stocks when their value is low and selling them when high – may sound like the perfect plan. But even the most successful fund managers in history have struggled to do this consistently. Predicting the market is notoriously difficult; even experts can't always call it right.

Rather than trying to find the 'perfect' moment to invest, it's vital to understand that the right time depends on you and your financial circumstances. Additionally, holding cash plays an important role in financial planning, but it's worth exploring where it fits into your broader strategy.

IMPORTANCE OF HOLDING CASH

Your hard-earned money deserves to be preserved, and you might think the safest move is to keep it in cash. This way, there's no ambiguity – you know exactly what you stand to receive back. With recent rises in interest rates, cash may seem even more appealing. But is cash entirely without risk? Not quite.

From a wealth planning perspective, it's always advisable to maintain an emergency or 'rainy day' fund. This ensures you're covered for unexpected expenses or specific financial goals and allows you to keep the funds easily accessible. However, while cash makes sense for short-term needs, there are pitfalls when too much of your money is left as cash for extended periods.

WHY HIGH CASH RATES AREN'T ALWAYS A SAFE BET

In 2020, the Bank of England (BoE) base rate plummeted to a historic low of 0.10%, a move aimed at supporting the economy during the unprecedented challenges of the Covid-19 pandemic. This created a bleak scenario for savers, as interest rates on savings accounts became almost negligible, with some offering as little as 0.01% annually. For many, this situation meant their cash savings earned virtually nothing, even as living costs increased.

Fast-forward to 2024, and the landscape looks very different. Rising inflation pressures prompted the BoE to raise the base rate steadily over time, eventually peaking at a 15-year high of 5.25% by mid-year. This sharp climb was an effort to counter inflation, which had surged to double digits in late 2022, reaching a 41-year high of 11.1%. By August 2024, however, the BoE opted for a slight rate cut to 5.0%, signalling a potential shift in the interest rate cycle as inflation began to ease.

STARK CONTRAST TO THE NEAR-ZERO RETURNS

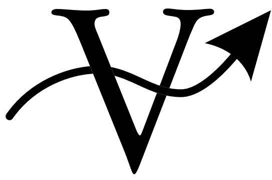
For savers, the elevated rates offered a silver lining. Many high street banks and financial institutions adjusted their savings account offerings, with some providing interest rates of up to 5% or more. This marked a stark contrast to the near-zero returns of just a few years prior, creating what appeared to be a favourable environment for holding cash.

However, it's essential to approach this with caution. Cash rates tend to be short-term tools that respond to BoE rate changes, often requiring savers to shop around regularly to secure competitive returns. For example, introductory savings account rates may drop after a fixed period, leaving your cash earning less if left unmanaged.

TIME-CONSUMING AND ADMINISTRATIVELY DEMANDING

Savers have had to remain vigilant, comparing accounts and transferring funds to keep pace with the changing rates. This ongoing effort can be

Voyage Financial Planning Ltd is an appointed representative of 2plan wealth management Ltd which is authorised and regulated by the Financial Conduct Authority. Voyage Financial Planning Ltd is entered on the FCA register (www.FCA.org.uk) under no. 992319. **Registered office:** C/O Vantage Accounting 1 Cedar Office Park, Cobham Road, Ferndown Industrial Estate, Wimborne, BH21 7SB. **Registered in England and Wales Number:** 10889785
Please note that the FCA do not regulate will writing, tax planning and trusts



Voyage Financial Planning

Voyage Financial Planning,
Basepoint Unit 56, Premier Way,
Romsey, SO51 9AQ

T: 023 8110 2094
E: info@voyagefp.co.uk
W: www.voyagefinancialplanning.co.uk

time-consuming and administratively demanding, undermining the simplicity often associated with holding cash.

Yet, even with higher interest rates, the effective value of cash savings is still vulnerable. Inflation, although moderating in 2024, remains a significant factor. If inflation continues to outstrip savings rates, the purchasing power of your cash may erode over time, highlighting the importance of balancing emergency funds with long-term growth-focused investments.

THE HIDDEN COSTS OF TOO MUCH CASH

Despite the apparent safety net cash provides, leaving funds idle can come with significant hidden costs. While cash may feel like a secure option, the opportunity cost of not investing could be substantial. When your savings sit in cash, you risk missing out on the long-term growth potential of the stock market, which historically outpaces cash returns. Over the past four decades, the FTSE All-Share Index has delivered an average annual return of around 7.8%, including dividends – returns that cash holdings cannot match.

Investments benefit from multiple mechanisms like capital growth, dividend reinvestment and compounding interest over time. Compounding, in particular, plays a decisive role in generating wealth, as reinvested dividend income fuels exponential growth. By contrast, cash savings remain static, missing out on this growth dynamic.

FALLING SHORT OF PERSONAL SAVINGS ALLOWANCES

Furthermore, keeping money in cash accounts outside tax-efficient vehicles, such as ISAs or Premium Bonds, can expose you to tax liabilities. This erodes the already modest returns offered by cash deposits. Many savings accounts also fall short of personal savings allowances, meaning interest earned above yearly limits (£1,000 for basic rate taxpayers or £500 for higher rate taxpayers) could be subject to tax. This diminishes the actual value of cash savings further.

Inflation poses the most significant challenge to holding excessive cash. Over time, inflation diminishes the real buying power of money, a phenomenon that can cripple long-term financial planning. For example, in October 2022, UK inflation escalated to 11.1%, a 41-year high.

OVER-RELIANCE ON CASH AS A LONG-TERM FINANCIAL STRATEGY

Despite rising savings rates, which peaked at around 5% in some cases during 2024, these returns were considerably outpaced by inflation at its peak. Even when inflation started moderating later in 2024, cash savers had already seen their purchasing power erode during the high inflation period.

This disparity highlights a key issue – headline interest rates can appear attractive but often fail to protect against the corrosive impact of inflation. Over-reliance on cash as a long-term financial strategy risks leaving savers worse off. Striking a balance between maintaining easily accessible emergency funds in cash and pursuing long-term growth through diversified investments is essential for achieving financial stability and building future wealth.

LONG-TERM GROWTH MAKES THE CASE FOR INVESTING

Investing is fundamentally about generating long-term benefits, with the added advantage of tax efficiencies. Regularly attempting to buy and sell based on market fluctuations, particularly given the reduction of Capital Gains Tax (CGT) annual allowances from £12,300 to just £3,000, has brought complexities. Frequent trades may expose you to unexpected tax consequences and result in missed opportunities.

What markets do today, tomorrow or over the next year should matter less if your focus is on long-term investment goals. Successful investing is not about riding every peak and valley in the market but ensuring your financial plan aligns with your life circumstances and aspirations.

BUILDING A STRATEGY TAILORED TO YOU

Investing isn't a one-size-fits-all approach. It requires careful planning, starting with a deep understanding of your short, medium and long-term financial goals. We work to create bespoke strategies based on your unique circumstances and aspirations.

One of the most essential principles of investing is staying the course. Remaining invested over the long haul and diversifying your holdings across sectors and geographical areas can help cushion the impact of market volatility and better position your portfolio for growth. ■

IS IT TIME TO CRAFT A TAILORED STRATEGY THAT SUITS YOUR INDIVIDUAL GOALS?

If you're interested in learning more about long-term investing and how it can benefit your financial future, we're here to help. Get in touch today to explore how our expertise can help you craft a tailored strategy that suits your individual goals. Your financial future starts with making informed, confident decisions. Let's make those decisions together.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE.

Voyage Financial Planning Ltd is an appointed representative of 2plan wealth management Ltd which is authorised and regulated by the Financial Conduct Authority. Voyage Financial Planning Ltd is entered on the FCA register (www.FCA.org.uk) under no. 992319. **Registered office:** C/O Vantage Accounting 1 Cedar Office Park, Cobham Road, Ferndown Industrial Estate, Wimborne, BH21 7SB. **Registered in England and Wales Number:** 10889785
Please note that the FCA do not regulate will writing, tax planning and trusts