Economy Aug 9 2023

Number of clients forgetting inflation 'surprising', say advisers

(Alaur Rahman/Pexels)

By Tom Dunstan 0

It is "surprising" how many savers have forgotten about inflation as more clients look to put money in cash, advisers have said.

Joshua Gerstler, chartered financial planner and owner of The Orchard Practice, warned that although the interest being paid on savings accounts is now higher than it has been for "quite a few years", this couldn't be looked at in isolation.

"If inflation is 8 per cent and you lock your money away for one year at 5 per cent, you are guaranteeing yourself a minus 3 per cent return.

"Could your investments grow by less than this? In the short-term, yes.

"However, history shows that if you remain invested in a well-diversified investment portfolio, over the long run your returns will be far superior to those available from a savings account."

The Kushman Group property developer and portfolio landlord, Kundan Bhaduri, explained that, while rates may appear attractive, they "pale in comparison" to the "eroding power" of inflation.

> I've seen a similar trend of clients asking about putting their money into savings accounts
>
> Scott Gallacher, Rowley Turton

"In real terms, cash in savings accounts loses its value," he added, "so those seeking to preserve and grow their wealth would do well to explore appreciating assets such as property and equity."

MortgageShop.com financial adviser, Gary Bush, added: "Obviously with inflation running at 7.9 per cent, even a high savings rate of 6 per cent isn't going to keep pace."

However, Bush argued that, if clients feel more at ease with an actual return than the promise of a return from other instruments in the longer term, then as long as they understand the overall vision, "so be it".

These comments follow a reported increase in the number of clients enquiring about putting their money into cash.

Gerstler said: "We've been getting a lot of enquiries from clients about moving some of their funds into savings accounts in recent months."

This was also seen by Rowley Turton director, Scott Gallacher who said: "I've seen a similar trend of clients asking about putting their money into savings accounts, especially the more cautious ones."

Oakham Wealth Management CEO, Paul Denley, suggested that if a client is investing for the long term, it may be better to accept a lower starting yield that will grow in real terms by investing in "high quality dividend-paying equities".

He suggested this may be preferable to opting for a higher starting rate on cash that is projected to fall.

"In the long run, we know equities outperforms bonds, via a combination of yield and capital growth, and bonds outperform cash that is projected to fall," he added.

"It makes sense to maintain exposure to each asset class, albeit at varying allocations, throughout the market."

A similar sentiment was shared by Gallacher, who said: "I always stress the importance of a well-balanced and diversified approach tailored to their unique circumstances."

Gallacher added that, while some clients express concern about low returns, communication and education help them understand the bigger picture.

"Ultimately, it's about making informed decisions that align with their financial objectives."

Thanks to the Newspage community for sharing their thoughts with FTAdviser.

tom.dunstan@ft.com

What's your view?

Have your say in the comments section below or email us: ftadviser.newsdesk@ft.com

More on Economy

Retail data shows UK economy is 'hanging by a thread'

Inflation increases to 4% dampening bank rate cut hopes

UK economy grows by 0.3% in November

Most Read

St James's Place 9 hours ago
SJP partner firm hires head of wealth management

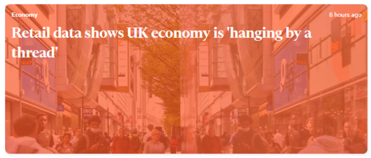
Pensions Yesterday
What are the merits of including death benefits with annuities?

Pensions 8 hours ago
Could election uncertainty and LTA changes give life to Qrops?

There are no comments on this story.

Profile & Replies · More discussions · Top of comments · Top of article

More on Economy



Economy · 8 hours ago

Retail data shows UK economy is 'hanging by a thread'

Economy · Jan 17 2024

Inflation increases to 4% dampening bank rate cut hopes

Economy · Jan 12 2024

UK economy grows by 0.3% in November

Economy · Jan 10 2024

BoE: 'Exuberance and geopolitical risks are threat to financial stability'

Economy · Dec 22 2023

Recession fears arise as GDP falls