How safe is your cash?

Some 'safe' investments carry a price. Finance Editor Susanna Stuart looks at the options

THE PAST 12 MONTHS have been pretty awful for many investors as finance firms have fallen over and the values of shares and property have plummeted.

The latest finance company to bite the dust, Mascot, had one thing many failures did not: A government guarantee that will see investors get their capital repaid. That's good news for the investors, but not such good news for us taxpayers who will ultimately stump up with the cash.

Still, a government guarantee, in the current climate, is pretty appealing. Just how do these work? Before the credit crunch crisis government stock was the only investment guaranteed by the Government, but now a number of institutions are covered, in part to give investors confidence. To receive the guarantee, local banks and some financial institutions have been through an approval process. See www.treasury.govt.nz for a list of who is covered.

The guarantee is not unlimited. First, there's a maximum guarantee of $1 million per depositor per institution. And the guarantee won't last a lifetime; it expires in October 2010. What happens after that?

While we've seen many finance firms collapse, the basic banking landscape in New Zealand is very solid. According to a Global Finance survey Rabobank, ANZ, Westpac and ASB are each among the world's top 50 safest banks; they haven't been caught up in the toxic activity that brought many big US banks to their knees.

So investing in bank deposits is still a secure way to preserve capital. But sadly it no longer gives a great rate of return. Interest rates have fallen so low that returns after tax are marginal. Those risk-averse investors who've always held cash deposits have seen their income from interest halved in recent months.

What about gold? Traditionally this was seen as, well, the gold standard of safe investment. But by 1987 this was no longer so, especially in New Zealand when investors with tangible bullion investments found the cupboard bare at failed investment firm Goldcorp. And that's not the only thing to tarnish gold's reputation. For a start, there's a world over-supply of the precious metal, and even if you held it in a safety deposit vault at a truly safe bank, it attracts no income, but rather storage fees. It goes wildly up and down in value, and is thus quite a risky investment.

The reality is that good market or bad, the basic principle of risk and return remains fairly constant. There are safe places to invest, even in today's conditions, but the safer you go the lower your returns. During the credit frenzy time, investors focused soley on return and forgot about risk.

At some point shares and property will be attractive to buy, and if you have cash to buy these, then you'll ride the escalator. Because asset prices have fallen so much, they've basically bottomed out, and now have more upside than downside.

There's a point after a downturn when confidence returns and people are more willing to dial up their risk tolerance just a little. Now's not a good time to hide your head in the sand... or to hide your cash under the bed. N

Low-risk strategies

- Diversify your income sources.
- Invest your interest-bearing deposits with institutions that have a high credit rating. This reflects their ability to repay capital as well as interest. For my clients, I stick with A-rated deposits.
- If you're investing in shares stick with companies with low debt and sustainable revenue.

PHOTOGRAPH **GETTY IMAGES** SUSANNA STUART IS A FINANCIAL ADVISER. A FREE DISCLOSURE STATEMENT IS AVAILABLE BY EMAILING SUSANNA@STUARTCARLYON.CO.NZ