

## Cash: The Illusion of Safety

Many people figure that cash investments — money market funds, Treasury bills, and bank accounts — are the safest investments available. But their safety may be an illusion in the long run.

### **There's little to lose**

It's true that cash investments don't expose investors to the risk of losing significant sums. By contrast, investors in stocks and stock funds stand a good chance of suffering short-term losses, and those price declines can be significant. Bonds and bond funds can also be volatile, especially when interest rates are rising, because investors prefer to buy newly issued bonds that carry higher yields, so prices of existing bonds decline.

### **But also little to gain**

No wonder many investors turn to cash when the going gets rough. Unfortunately, these investors are often disappointed because cash investments tend to generate low long-term returns. In fact, those returns are often barely sufficient to stay ahead of inflation.

### **So don't be safe, then sorry**

Inflation has been relatively low in recent years, but some economists expect the rate of inflation to begin to rise. If that happens, interest rates on some cash investments will increase slightly. But if it's growth you're after, you need to look beyond cash.

Stocks and bonds have generated considerably higher returns over time. What's more, investors can manage the risk in such investments by creating a well-diversified portfolio with a mix of stocks, bonds and cash.