



With UK interest rates poised to fall even further...ls Cash still King?

Volatile and declining equity markets last year prompted many to seek the sanctuary of cash deposits, rather than risk further losses. Throughout the year, we recommended higher cash levels across most portfolios to both insulate investors from turbulent markets and as an attractive source of risk-free return. In this process, we have used only the strongest of deposit taking institutions. However, conditions have changed. Interest rates in the UK have now fallen to 1.5% and, if we follow the example of the US, may be expected to fall even further.

With interest rates at such low levels, investors will effectively be faced with a zero return on their cash deposits (or even a negative return if adjusted for inflation), making cash deposits a less than attractive option. Unfortunately, overall market conditions have not improved sufficiently for us to recommend a significant increase in equity investment at this time; rather we expect to be selective, investing into quality assets/funds on further weakness. This implies that overall portfolio equity exposure may remain



lower than normal in the short to medium term resulting in higher cash balances.

TAM Asset Management is, therefore, likely to make investment in diversified UK Sovereign Debt (or "Gilt") Funds as a short-to-medium term alternative to retaining cash within portfolios. Investment in these Funds, not only offers the liquidity we require to be able to exploit other investment opportunities when they arise, but also the potential for a far higher level of income than cash would offer this year. Additionally, should interest rates fall even further, modest capital appreciation can be expected, even from these levels. We will, therefore, be adding a "liquidity" investment to our portfolios this quarter in the Gilt market and will annotate the Investment as such.

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