Chart that Tells a Story Personal Finance

Cash savings: a decade of value erosion

£100 deposited in 2009 would now be worth £84 in real terms

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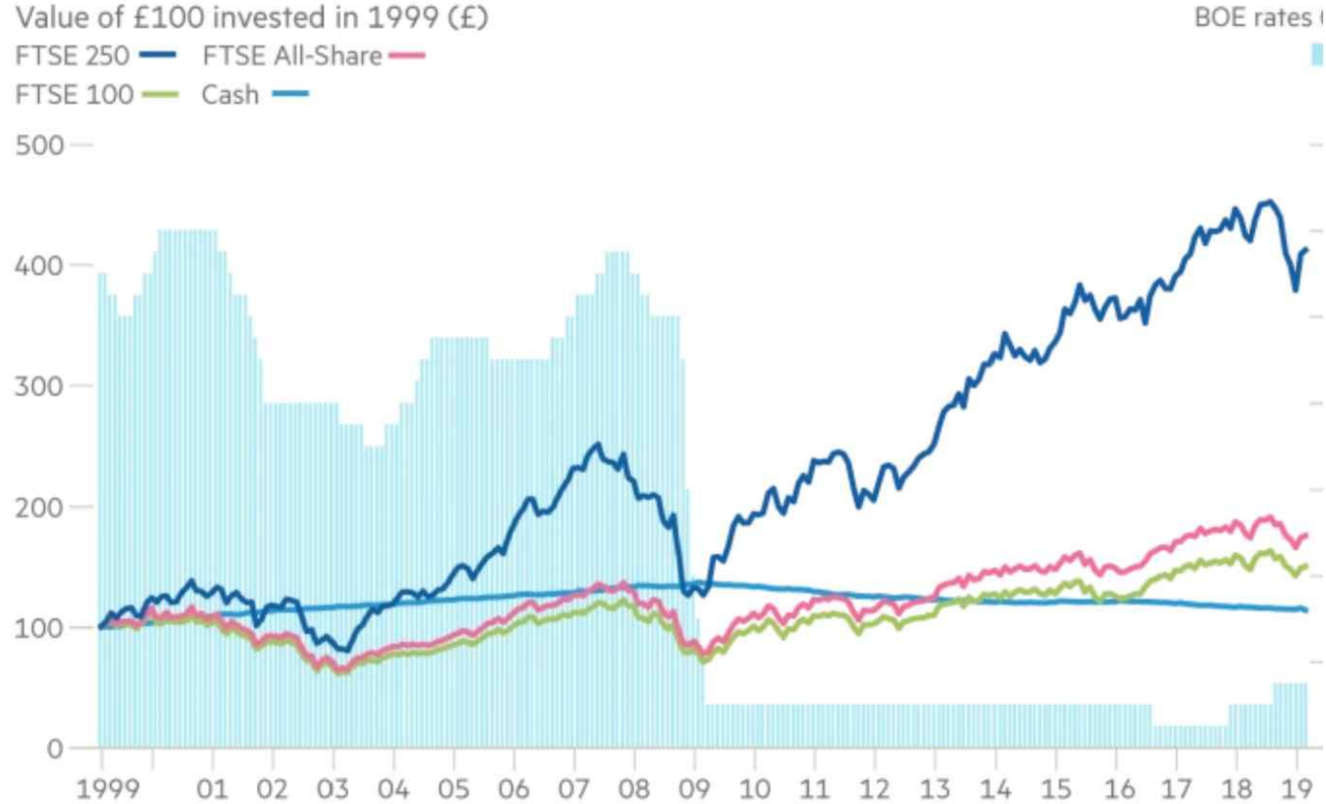
Real returns of cash and UK equities



Source: Brewin Dolphin

What does the chart show?

It shows the impact of interest rates on the returns from cash savings compared with UK equities over the past 20 years, according to analysis from wealth manager Brewin Dolphin.

If £100 had been invested in the FTSE 250 in 1999, it would have grown to £380 in real terms over 20 years. If £100 in cash had been held in an interest-bearing savings account over the same period it would have grown to £114.

The data also show that in the 10 years to February 2019, a £100 saving would be worth £84 in real terms due to a combination of the eroding power of inflation and historically low interest rates. An investment of £100 in the FTSE 250 in 2009 would be worth £314 by February 2019 — assuming returns were reinvested and an annual 0.5 per cent fee was paid.

Why did the interest rate fall so significantly in 2009?

In the aftermath of the financial crisis, the Bank of England cut interest rates to 0.5 per cent in March 2009 in an attempt to boost the economy. When rates are low, the incentive to save is low, so consumers spend more. Borrowing is also cheaper.

The bank also began quantitative easing, pumping £75bn into the UK economy to restart the economy.

Since the financial crisis, UK interest rates have remained low, hitting savers' pockets. Rates fell to 0.25 per cent in August 2017 before creeping up to 0.75 per cent a year later. While the returns from cash have not increased, and instead fallen in real terms due to inflation, investments in the FTSE 100, 250 and All Share have all increased over the past 10 years.

What does this mean for individuals' finances?

Individuals who have kept the majority of their savings in cash have missed out on the financial rewards of the stock market.

Sarah Kirby, investment manager at Brewin Dolphin, said: "Pre-crisis, cash was king for savers when interest rates were higher, and savings rates could at least beat inflation. The decade of erosion that started in 2009 has meant savers seeking a risk free rate of return have lost money in real terms as inflation has eroded the potential spending power of their cash."

Although equities are more volatile than holding cash, in the long term they perform better and deliver stronger returns for investors. "By not having a proportion of one's savings invested in asset classes which beat inflation over the longer-term, savers are facing other risks to their capital, primarily the effect of inflation eroding the value of their savings in real terms," Ms Kirby added.

Will UK stock market returns continue rising?

Since the start of this year, the FTSE 100 has advanced by more than 6 per cent while the FTSE 250 has risen over 10 per cent. These returns vastly outstrip those from cash savings.

For many, holding cash is deemed safer than stock market investing. The uncertain economic conditions brought on by Brexit have also reduced investor confidence in UK equities. However, investors should look past short-term volatility to reap greater benefits.

Alistair Fullerton, director of Lathe and Co Wealth Advisers, said: "The short-term volatility of equities don't actually become losses unless the stocks are sold while on a downturn. Over the long term, equities have outperformed all other asset classes and have proven their value to investors."