Are clients considering running to the bank?

With rising interest rates amid a sanguine equity outlook, many advisers are looking for an answer to the inevitable question as to why clients should look to invest in financial markets when they can now get significant and secure returns on bank deposits. It is not an unfair question but one that needs a strong and robust retort.

Can you really get near 5% returns pa on deposit?

I think initially the issue is that the return available, if interest rates are 5%, is not attainable for clients easily. Invariably, it is not 5% at all as banks ensure the margins internally are kept up. To prove the point, the FCA are grilling the banks on why their rates of return on deposits are so weak as we write. Normal cash rates for current accounts, as we all know, are pitifully low but even deposit accounts can fall well short of prevailing market rates.

For investors seeking as high a rate as possible, there are of course term deposits often offered for six-month, one-year or three-year periods. This however takes the essence of liquidity away as withdrawal can become either ineffective, awkward, or on occasion, punitive.

TAM has however moved swiftly to create a 'Liquidity Plus' model yielding a net c4.8% pa (although this will vary with interest rates) after all TAM and TER charges.*

Why are my returns in a portfolio not matching the prevailing interest rate?

A real element of perspective is required.

The recent history (2-5 years) has witnessed very low interest rates and nearly normalised investment returns. If you had held cash deposits for 3 years, your net return to today (end June 23) would be c3.67%, and that's assuming you are receiving full base rate returns. It would have been more likely that a rate of 2-2.5% was applicable to clients.

In the same timescale, TAM Balanced accounts are up c9%, and Growth accounts some 16%. If one takes the five-year view then cash returns would have returned 5.01%, so perhaps 3.5-4% net to clients. TAM Balanced accounts have risen c10% and Growth accounts by nearly 18% over the five years.

Now here is the shocker. Holding bank rate cash this calendar year (6 months to June) would have yielded 2.01% to a client, perhaps a net 1.75% in reality. Both TAM Balanced and TAM Growth have returned higher than that over the six months.

Interest rates, now at 5%, look better than market potential in the next 12 months, don't they?

We are unsure about that. It is by no means a foregone conclusion that rates will stay this high for a year or so, or that markets don't become stronger. I am reminded of the work by Bank of America on CNBC in March 2021 and the following comment:

"Looking at data going back to 1930, the firm found that if an investor missed the S&P 500′s 10 best days each decade, the total return would stand at 28%. If, on the other hand, the investor held steady through the ups and downs, the return would have been 17,715%."

Missing the potential for upside movement can have significant consequences. Having said that, close to 5% is of course a solid investment return.

To get the best rates do I need to lock up my money for a fixed period?

Conventional wisdom and what we tend to see in practice is that the highest rates come from longer term fixed deposits often with interest penalties for early redemption.

TAM has created the MPS Liquidity Plus portfolio that matches many of those rates BUT with full daily liquidity on the money market product. This ensures that when clients have more appetite for risk, they are not locked into weaker returns that cash may present. TAM has high liquidity as a core mantra across its entire range and Liquidity Plus is no different.

Can I switch from money markets to a more investment orientated portfolio when economic and market circumstances improve?

Fixed deposits at banks to investment is a difficult process and likely to incur an interest penalty. Standard deposits at banks to investment means a low interest return and some awkward switches of mindset as clients need to move from bank to investment product.

By using a money market MPS product at TAM, it is a simple and streamlined process to change to a more diversified investment stance, and whilst it is not for us to proffer any form of advice, it would seem a sensible consideration for:

a) Clients in final drawdown
b) Clients who have little tolerance for risk (even on a temporary basis)
c) Clients willing to move to bank deposits and thus making reinvestment a more awkward option
d) Clients who expect now with interest rates at this level to see a money market option in their alternatives

Why choose TAM Liquidity Plus?

In conclusion, I want to be very clear that TAM is a firm believer in the power of long-term returns through market cycles and that market returns will win through and are even doing so today. However, at TAM we have become known as a company that solves problems. We do not see cash being the best long-term investment vehicle but we listened to the IFA market needs and moved swiftly to provide a short-term practical solution for a perceived issue.

A net yield of c4.8% pa is a solid return verses present interest rates and provides a suitable discussion point for IFAs with that part of their client bank that has the need for liquidity, is panicked or concerned, or simply requires the lowest level of risks as a result of personal considerations. Again utilising our strength to find the cheapest and most efficient share classes, TAM Liquidity Plus, as well as being a cost effective solution, allows the intriguing option of speedy reengagement with markets and increased risk profiling as and when clients and their advisers so choose.

If you would like to speak with us about our Liquidity Plus portfolio, or to discuss our discretionary investment management services in general, please get in touch with our UK business development manager David Terry today.

**Rates may vary depending on money market and other cash rates but are correct at time of writing.*

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