

RETHINKING THE “COST OF COMFORT”

You may be paying a steep price for the short-term safety of cash

Fast facts

- **0.23%** is the US average yield on a 1-year CD.¹
- **1.5%** is the average US inflation rate.²
- **3.5%** is the annual return Gen Y investors believe they are earning on their cash investments (2.8% for Gen X and 2% for baby boomer investors).³

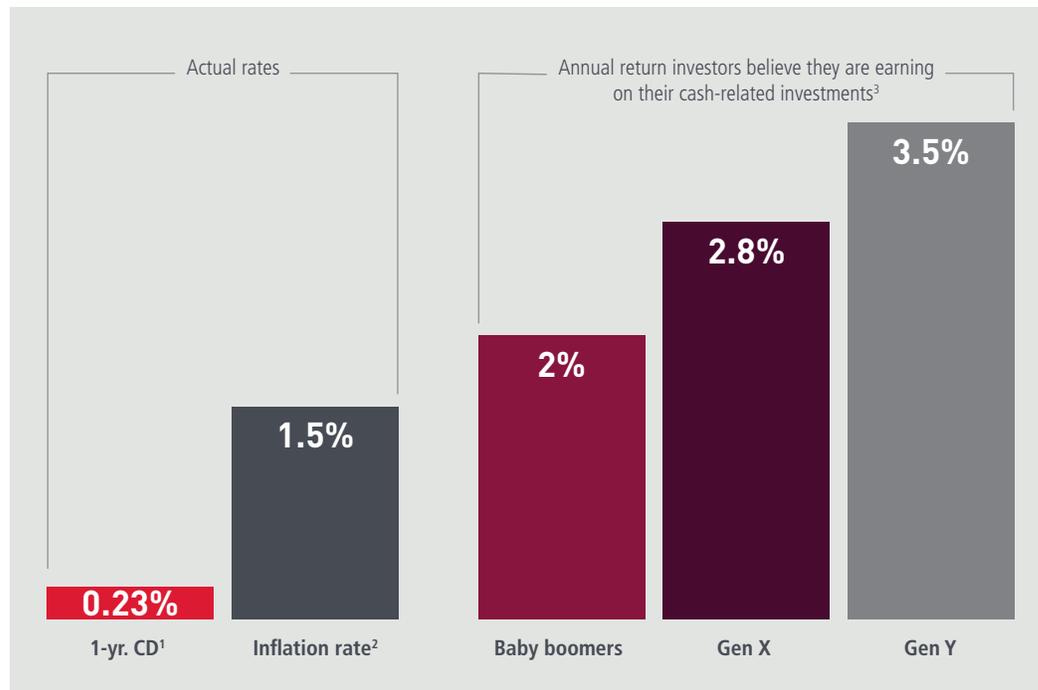
In turbulent, uncertain markets, many retirement investors try to safeguard their savings by favoring CDs, money-market accounts and government bonds over stocks. While these relatively “safe” options have been less volatile than stocks and bonds, they also offer little to no opportunity for growth of capital and income.

Safety comes at a price

What is the cost of holding large sums of cash and the “comfort” that comes with it? Always keep in mind that you are only getting ahead if the growth of your investment, the real rate of return, is higher than the rate of inflation.

Using the chart below as an example, with cash investments earning 0.23% and an inflation rate of 1.5%, the real return on them is **negative** (-1.27%). In today’s low-yield environment, bank CDs and money market accounts are simply not paying what many investors think. While there are good reasons for holding some cash in a well-diversified portfolio, holding too much of it for too long may not be a winning retirement strategy.

Reality vs. perception



Depending on your needs and goals, consider keeping only a small percentage of your retirement assets in cash-related investments to help offset the erosive effects of inflation.

Keep in mind that no investing strategy can guarantee a profit or protect against loss. Talk with your financial advisor today about the roles stocks, bonds, and cash should play in your retirement portfolio.

¹ Source: Bankrate.com, January 2014.

² Source: US Bureau of Labor Statistics, December 2013.

³ Source: MFS® Investing Sentiment Survey, April 2013.