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Cash does not stand still

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There is a simple reason cash feels safe. The number on the statement does not usually fall. £100 remains £100. Yet that is only one way to measure whether your money has been preserved. If the cost of the things you need rises faster than the interest on your savings, the balance may be unchanged while its buying power quietly shrinks. For long-term investors, the distinction between preserving pounds and preserving purchasing power is fundamental.

Since 2010, UK inflation has been volatile but persistently positive, while cash savings rates spent most of that period below 1%. If prices rise by 3% while your cash earns 1%, your real return is around minus 2%. That is not dramatic in a single year but compounded over a decade it steadily reduces what your money can buy.

We prefer to think about long-term objectives in real rather than nominal terms. An objective of inflation plus 1% is not especially ambitious, but it is a demanding hurdle for cash to clear consistently. J.P. Morgan's long-term analysis shows the cost of falling short: over 20 years, cash lost almost 32% of its real value, leaving £1,000 from 2005 with the spending power of only around £680 by 2025.

A £20 note left in a drawer illustrates the point. It looks exactly the same ten years later, but the basket of goods it can buy will not be. This is why we do not equate risk with day-to-day price movement alone. Cash has very low volatility, but inflation creates a different risk when a stable nominal value fails to meet a future real-world need.

For longer-term money, a diversified portfolio gives us more tools to manage that risk. A strategy targeting CPI plus 1% might combine equities, bonds, and other assets, with the balance shifting as conditions change. It will fluctuate, and there will be periods when it falls short of its objective. That is not a flaw in the design, rather it is the price of a better prospect of preserving and growing real wealth over the years the money is actually needed.

Cash ISAs have become more popular as higher rates made cash returns look attractive, but the mechanics have not changed. A Cash ISA can produce a steadily rising balance in pounds while inflation still erodes what it will buy, because the tax wrapper protects the interest from tax, not the money from inflation. From April 2027, the annual Cash ISA allowance for those under 65 will fall to £12,000, with the overall ISA allowance held at £20,000, a change intended in part to nudge more savers toward investing for the long term.

For money you need within a few years, cash remains entirely appropriate. For money that can stay invested for ten or twenty years, a diversified portfolio has a far better chance of preserving and growing real wealth, and doing so without taking on much equity risk. A cautious multi-asset portfolio can keep volatility low while still giving you a realistic prospect of staying ahead of inflation over time.

This does not mean moving from cash into an equity-heavy portfolio. For a cautious client, the lesson is to define the risk properly, not abandon caution. Cash alone may not be enough for a long-term objective, but a portfolio built around your tolerance for risk can still target a return above inflation without swinging wildly in value. A balance that looks calm from one day to the next can still be losing ground in the only measure that counts: what your money will eventually buy.

At Tacit, we treat cash as a tool rather than a long-term destination. It has a role in portfolio construction, but for long-term objectives the benchmark we set is the return required after inflation, not a target of 2% that has rarely held true since 2010. We would rather build portfolios with a reasonable prospect of preserving and growing your purchasing power than rely on the apparent safety of a balance that buys a little less with every passing year.