



American Heritage Securities, Inc.

affiliated with **EGL Financial, Inc.**

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# GOING POOR ... SLOWLY

**What kind of investor are you?** Are you a speculator who trades in and out of stocks? Are you a capitalist who invests in attractive companies for long-term growth? Or, are you more focused on saving? You invest your savings cautiously or perhaps just park the cash you have saved. If you fall into the last category, you may be at risk of **going poor slowly**.

When markets are volatile, investors get nervous and some avoid the market by taking defensive positions like keeping their money in cash. Why? Because they feel more secure with cash. Cash can be seen, felt and spent at will, and having money on hand makes many people feel safer. But, is this really a safe strategy?

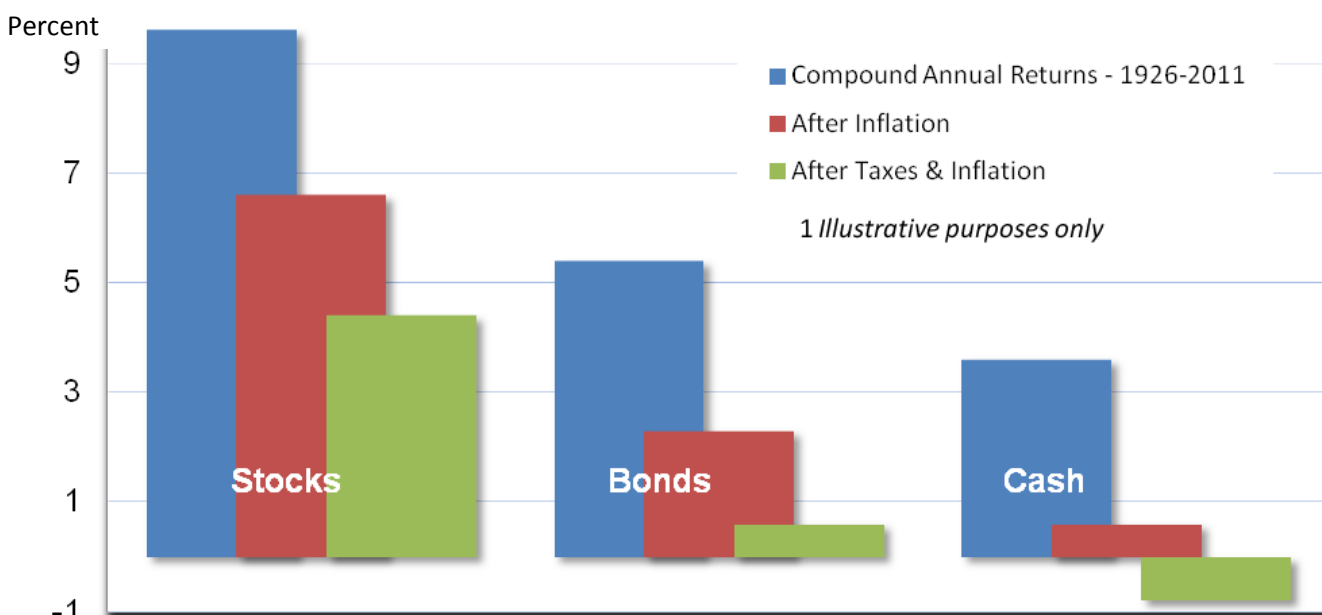
While having cash in your hand seems like a great way to avoid losses, cash is no defense against inflation. You may think your money is safe when it's in cash, but over time, its value erodes.

**F**ear of investing is expensive: History shows that holding cash has an extremely negative long-term impact on your purchasing power. Short-term interest rates have been near zero for over three years and, if the Federal Reserve is to be believed, may remain near zero for two more years. Thus, cash is earning nothing.

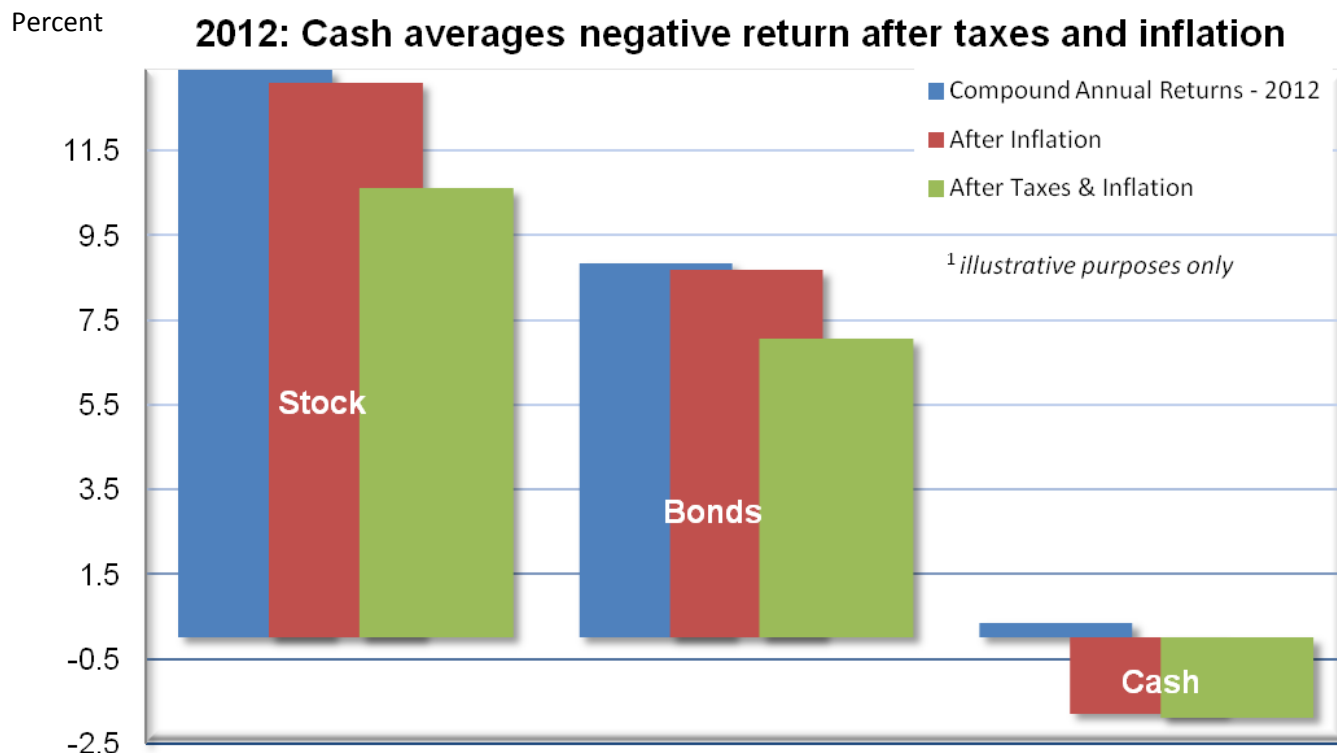
In addition, reluctant investors have missed out on strong performances in many other investment sectors. The opportunity cost of not being invested in other market sectors, plus inflation, has made cash the most expensive asset class to hold over the last four years. And, it appears investors will be faced with similar prospects over the next couple of years.

An illustration<sup>1</sup> of holding cash versus investing in equities and bonds, including the effects of inflations and taxes, is shown in the charts below. The first chart shows an 85-year span of gross and net returns.

## 85 years: Cash averages negative return after taxes and inflation



The second chart makes the same comparison for the twelve months of 2012 only. In either scenario, equities or bonds saw significant growth while cash actually lost money.



**I**nflation is a cash killer: In an attempt to recover from the 2008/2009 financial crisis, the US is pumping out money at a rate never before seen in history. When the money supply increases, it lowers the value of the dollar and can lead to inflation which leads to a **loss of purchasing power and your dollar buys less**. To the investor, inflation is less dramatic than a market crash, but in reality inflation can be more devastating to your long term financial well-being.

Obviously, we investors must hold some cash to meet near-term liquidity needs and emergency expenses. But, the fear of investing has driven many investors to hold excessive amounts of cash as well as invest in low yielding fixed investments like bonds or CD's to levels that significantly exceeds those requirements.

Although experts don't expect inflation to increase dramatically over the next year, this is a good time for investors to examine their cash holdings and to begin to systematically invest excess cash back into the market, where better opportunities exist. Sure, stocks pose a risk of losses during market downturns, but if you avoid stocks altogether, you probably won't be able to stay ahead of inflation.



**W**hat You Can Do Now: To achieve your goals and deal with the risk of rising prices, you need investments that grow in order to offset the effects of inflation. Bonds historically provide safety but no growth and the potential for higher interest rates and inflation down the road and that means bonds are less attractive today than they once were.

Now may be a great time to consider adding dividend-paying stocks to your portfolio. Although never guaranteed, dividend payouts can grow at a rate faster than inflation and stocks have the added potential of capital appreciation from the stock price. Look for stocks that have a track record of increasing dividends ...giving them yet another hedge against inflation.

Your American Heritage Securities advisor can help you find a mix of investments that is likely to help make progress toward your goals and also to keep them within reach after the economy expands.

<sup>1</sup> Inflation charts are for illustrative purposes only and not indicative of any investment. Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning \$110,000 in 2011 dollars every year for the 85 year span and in 2012 dollars for 2012 chart. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. Capital gains for stocks are assessed every five years when there is a cumulative gain from the last high, and assume a five-year holding period to determine the long-term capital gains rate. Bonds are assumed to be held to maturity. No state income taxes are included. Stocks are represented by the S&P 500 Index. Bonds are represented by the Morningstar/Ibbotson Intermediate-Term Government Bond Index. Cash is represented by the Morningstar/Ibbotson 30-Day US Treasury Bill Index. Inflation is represented by the Consumer Price Index. It is not possible to invest directly in an index.