

The Cost of Cash

Most investors know that cash is “safe.” Not all investors realise that over longer periods, South African cash has delivered a low real return for investors after inflation and taxes are stripped away. Safety, in this context, is a perception built on low volatility, while the inflation risk is not fully appreciated by investors.

This article argues that cash is not a low-risk asset in the financial planning world. Instead, the risk is simply deferred into the future and crystallised through opportunity cost in time. This means the long-term view of cash as an investment needs to be evaluated in context of its role and the long-term costs of holding it.

A useful way to reframe this risk is to separate what investors can see from what they can't. To illustrate this, the table below contrasts the trade-offs of cash against equities across five primary risk categories.

The Risk of Cash vs Equities

Risk type	Cash	Equities
Volatility risk ¹	Low	High
Permanent capital loss	Low	Moderate
Inflation risk	High	Low
Tax risk	High	Moderate
Opportunity cost risk	High	Low

The key takeaway is that while cash successfully eliminates short-term visible volatility, it quietly locks in hidden risks like tax drag and inflation erosion that reduce real wealth over time.

Cash Does Have a Legitimate Role

None of this is an argument against holding cash. Cash serves genuine portfolio purposes as emergency reserves, funding for planned near-term expenditure and tactical flexibility. This isn't an “anti-cash” stance; it's an argument for intentionality. Investors should be highly deliberate about how cash is used within a portfolio and recognise how its use changes across different market environments, as the indirect costs of holding cash are high. Cash held for a defined purpose and a defined period is sensible portfolio management.

The distinction that matters most is the time horizon. The loss of purchasing power increases with how long cash sits idle. While the impact is negligible over three to twelve months against a known need, it compounds the longer cash sits without a determined exit strategy. The problem is cash held without a clear purpose. That deferred decision carries a real, compounding cost over time.

Not All Cash Is The Same

Bank deposits, money market funds, and income funds carry meaningfully different risk, return and liquidity profiles yet investors often treat them as interchangeable. The right vehicle depends on the purpose and time horizon of the investment. The table below reflects the relative difference between these vehicles.

Relative Profiles of Different Cash Vehicles

Vehicle	Liquidity	Capital loss risk	Current expected return per annum	Rand value of R1 million after 10 years
Bank account	High - immediate	Low	0% - 2%	R1m - R1.2m (less bank charges)
Bank notice deposit	Medium - 7 days+	Low	3% - 6%	R1.3m - R1.8m
Money market fund	High - 1-3 days	Low	6.5%	R1.9m
Income fund	High - 1-3 days	Higher	8%+	R2.1m

Treating these different options as identical can lead to costly mistakes over time, such as sacrificing yield on long-term reserves by leaving them in a bank account. A better approach is intentionally matching the specific purpose of your cash to the exact vehicle designed to hold it.

The Invisible Cost: What You Don't Earn

The core risk of holding excess cash doesn't show up on a monthly statement. It shows up as the gap between what a portfolio actually returned and what it could have returned. This gap comes from two sources: opportunity cost (the performance given up by not holding growth assets) and inflation erosion (the direct loss of purchasing power when net yields fall short of inflation).

This structural difference is clear when looking at the chart below, which tracks the rolling 5-year real returns³ of SA equities and SA cash over time.

Rolling 5-Year Real Returns of South African Cash and Equity



Source: Refinitiv

As this chart demonstrates, volatility risk appears on the statements investors receive through wider ranges of return on equities, while inflation erosion and opportunity cost do not. For cash, the rolling 5-year real return frequently hugs or dips below the 0% real return line, meaning the investor actively lost purchasing power. By contrast, although growth assets experience periods of market volatility and cyclical drawdowns, they have historically delivered real returns well above that baseline and have delivered negative real returns in few instances.

To contextualise this compounding drag over the long term, the historical data (March 2000 to May 2026) shows that maintaining a permanent 20% allocation to cash instead of fully committing to equities reduces an investor's total wealth by around 23%. If you had invested R1 million at the start of this performance cycle, the seemingly harmless slice of cash exposure costs nearly R7.9 million⁴ in uncreated wealth, a large premium to pay for the temporary comfort of short-term stability.

Why Now Feels Different and Why It Probably Isn't

High yields create a powerful psychological trap. Staying in cash feels entirely rational when yields sit at 6.5%, but this logic contains reasoning errors. Investors rarely move into cash during calm, rational market environments. Instead, this shift toward cash often happens during periods of market uncertainty, typically when bad news dominates the headlines and investments are temporarily sitting at more compressed prices.

This instinct-driven move to safety is driven by compounding behavioural traps. First, loss aversion triggers a survival reflex during market drops, pushing investors to sell growth assets at depressed prices. This crystallises a temporary market fluctuation into permanent capital loss. We saw this play out during the COVID-19 crash of March 2020, when the FTSE/JSE All Share Index fell over 30% in weeks. Investors who gave in to that reflex locked in their losses near the bottom, missing the recovery that followed as the market rebounded by almost 50% over the next year. Second, recency bias causes investors to project today's high rates into the indefinite future, anchoring on headline yields while ignoring how quickly cycles turn.

Ultimately, both traps feed into a deceptive illusion of safety. As a money market balance rarely fluctuates visibly on a statement, it offers immediate emotional comfort that masks the harsh reality of the background noise. While your capital remains nominally intact, tax and inflation are steadily eroding your real purchasing power.

To quantify the above, the table below illustrates how individual tax brackets dilute a 6.5% gross yield once SARS takes its share and inflation is stripped away, using an investment of R1,000,000 (assuming the under-65 annual interest exemption is fully applied).

The Impact of Tax and Inflation on Cash Returns

Investor profile	Lower-income individual	Middle-income individual	Top bracket individual
Marginal tax rate	26%	36.00%	45.00%
Gross cash yield	6.50%	6.50%	6.50%
Less tax (SARS)	-1.07%	-1.48%	-1.85%
= Net after-tax yield	5.43%	5.02%	4.65%
Less current SA inflation rate	-4.50%	-4.50%	-4.50%
= Real wealth return per annum	0.93%	0.52%	0.15%

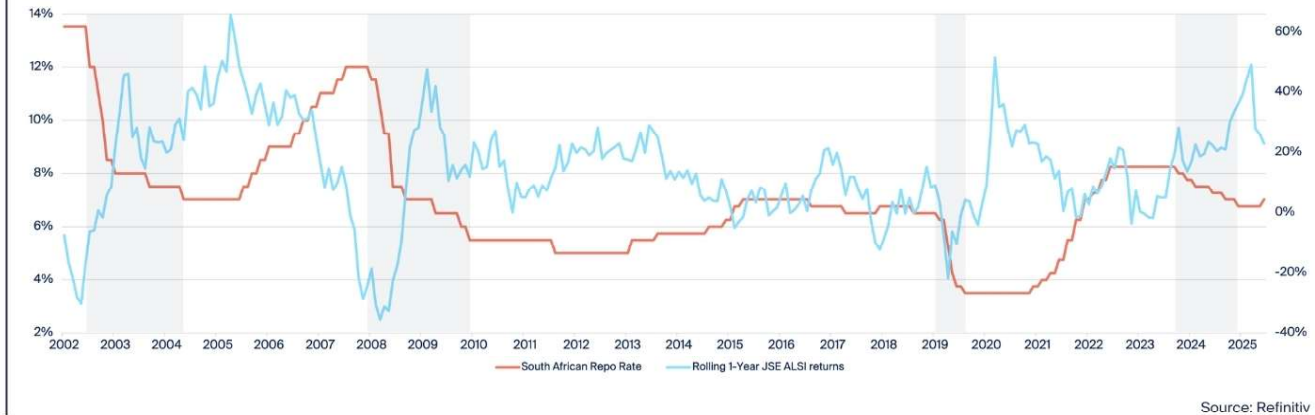
When viewed through the lens of the final result, a 6.5% return is materially smaller. For top earners, the real wealth return is reduced to 0.15%, proving that high nominal rates are often an illusion.

The Rate Environment Will Change, and Cash Returns Will Follow

Rates have always moved in cycles, and there's no reason to expect that to stop. The link worth making explicit is that the South African Reserve Bank (SARB) sets its policy rate with direct reference to its inflation target. This means cash yields tend to follow inflation.

This cyclical reality is mapped out in the chart below, which tracks the South African repo rate and highlights the historical "Peak Rate Traps" that catch investors off guard.

South African Interest Rate Cycles and Rolling 1-Year South African Equity Returns



As the chart demonstrates, investors who accumulate large cash balances near the peak of a rate cycle often face a double challenge. First, cash yields decline as interest rates decrease. Second, the same environment that supports lower rates can create favourable conditions for risk assets like equities. While every cycle is different, previous peak-rate periods have frequently been followed by strong equity market returns. Investors who remain heavily allocated to cash risk watching the next phase of market gains unfold from the sidelines.

If the SARB succeeds in establishing a credible 3% inflation regime as it intends, rates are likely to settle at a structurally lower level over time than investors have become accustomed to. As a result, cash yields are also likely to be lower. In this environment, investors can no longer afford to be passive or complacent with their excess cash.

Cash looks most attractive when rates are high and investors extrapolate those rates into the future. Yet history suggests that this is often when caution is most justified. We see this playing out in the current environment, while South Africa is navigating a small rate-hike cycle that keeps money market yields temporarily elevated, this spike is cyclical and not permanent. As global inflation normalises and the SARB anchors its structural 3% CPI target, these peak yields will inevitably roll over. As rates fall, cash returns fall with them and risk assets that were pressured by the same cycle often begin to re-rate upward at the same time.

Beyond the Temporary Comfort of Cash

The critical point of this article is that cash is a strong tool for liquidity management, but a poor vehicle for long-term wealth building. True financial security requires solving for the risks you cannot see (inflation and taxes), rather than hiding in the temporary comfort of the ones you can (short-term volatility). Inflation remains the most irreducible of these risks. While tax liabilities can be structurally planned around and opportunity cost depends on the alternative assets you choose, inflation remains the most constant hurdle. Historically, South Africa's high real interest rate policy allowed cash to outpace inflation comfortably. However, as investors face a shift to a lower 3% inflation target, that historical cushion disappears, ensuring that excess cash will face a far more aggressive erosion of real value.

To protect your wealth, investors should consider mapping out their capital intentionally, and sweep any "lazy" cash sitting idle in low-interest accounts into their long-term investment plan. This rule applies equally offshore, as leaving uninvested Dollars or Euros sitting in a foreign bank account carries the same expensive opportunity cost. In short, capital should be held in cash only to secure immediate liquidity, while growth assets are relied upon to deliver long-term wealth creation.

[1] Volatility refers to the short-term, visible fluctuations in an asset's market value.

[2] Takes on slightly more credit risk (the chance of someone defaulting), while also investing in longer-dated fixed-income instruments to capture a higher yield.

[3] Real return measures investment growth net of inflation.

[4] Assumptions: Illustrative estimates based on a R1,000,000 investment (Mar 2002 – May 2026). Compares a 100% SA Equity strategy (JSE ALSI Total Return) against a portfolio with a 20% cash allocation (STeFI Composite), assuming monthly rebalancing, gross of taxes and investment fees.

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July 2026

Market Report

30 June 2026

Market Performance (as a %)

Local Market Indices	CCY	3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
SA Equity	ZAR	-2.5	-3.3	17.5	16.6	14.4	10.7	14.0	14.6
SA Listed Property	ZAR	9.9	4.1	28.6	25.8	16.8	4.0	16.5	21.7
SA Bonds	ZAR	7.7	4.0	20.8	17.2	11.8	10.2	7.9	8.0
SA Cash	ZAR	1.7	3.4	7.1	7.9	6.9	6.8	0.4	0.4
Balanced Benchmark	ZAR	1.1	0.3	15.3	14.9	12.9	10.1	9.4	9.9
SA Inflation (1 month lag)	ZAR	2.4	3.2	4.5	4.2	5.1	4.7	1.6	1.6
Global Market Indices		3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
Global Equity	USD	13.8	9.1	21.5	19.3	11.6	13.3	15.2	14.9
Emerging Markets Equity	USD	24.0	24.0	44.1	22.9	7.0	9.8	18.8	17.6
Global Property	USD	8.5	8.9	13.1	9.5	1.6	3.3	18.0	17.1
Global Bonds	USD	0.9	-0.3	0.6	3.3	-1.6	0.3	7.8	6.4
US Cash	USD	0.9	1.8	4.0	4.8	3.6	2.4	0.6	0.5
Major Indices Based to ZAR		3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
SA Equity	ZAR	-2.5	-3.3	17.5	16.6	14.4	10.7	14.0	14.6
Global Equity	ZAR	9.0	7.7	12.0	13.8	14.7	14.6	14.2	14.9
Emerging Markets Equity	ZAR	18.8	22.7	32.9	17.2	10.0	11.1	13.9	14.0
Global Property	ZAR	3.9	7.6	4.4	4.5	4.5	4.5	16.3	16.6
SA Bonds	ZAR	7.7	4.0	20.8	17.2	11.8	10.2	7.9	8.0
Global Bonds	ZAR	-3.4	-1.3	-7.2	-1.5	1.2	1.4	10.3	13.0
Commodities		3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
Gold (US Dollars)	USD	-12.7	-6.6	22.3	28.0	17.8	11.6	16.7	15.1
Gold (Rands)	ZAR	-16.4	-7.6	12.8	22.1	21.1	12.9	15.7	17.3
Currencies		3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
Rand / Dollar	ZAR	3.5	1.1	7.5	4.5	-2.7	-1.1	11.7	13.9
Rand / GBP Pound	ZAR	3.3	2.5	10.6	3.1	-1.9	-1.1	9.8	13.0
Rand / Euro	ZAR	4.6	3.7	10.2	3.0	-2.0	-1.4	9.3	12.2

Market index performance is based on publicly available returns from ETFs that track the relevant underlying indices.

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Spot Rates

		30-Jun-26	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
Currencies							
Rand/US\$	ZAR	16.4	16.4	17.8	14.3	14.6	7.1
Rand/GBP	ZAR	21.7	21.7	24.4	19.7	19.7	13.2
Rand/EUR	ZAR	18.7	18.7	20.9	16.9	16.3	9.1
Rates							
6m USD Cash	USD	3.7	3.7	4.5	0.1	0.9	4.7
Repo Rate	ZAR	7.0	7.0	7.3	3.5	7.0	7.5
Prime	ZAR	10.5	10.5	10.8	7.0	10.5	11.0
All Bond Index Yield	ZAR	8.6	8.6	11.6	11.6	9.3	9.7
Commodities							
Gold (\$/oz)	USD	4 036.1	4 036.1	3 284.5	1 765.4	1 321.1	613.2
Platinum	USD	1 567.0	1 567.0	1 350.0	1 059.0	999.0	1 226.0
Oil (Brent Crude) \$	USD	72.9	72.9	67.7	75.3	49.9	73.0
Inflation							
SA Inflation	%	4.5	4.5	3.0	4.8	6.3	9.4

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Email: adviser@fundhouse.co.za | Web: www.fundhouse.co.za

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