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Why Holding Cash Long Term is a Bad Idea

Last week, *Warren Buffet* gave an interview to the New York Times on why he was buying when everyone else was selling. Below are extracts taken from this interview.

"A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly fear is now widespread, gripping even seasoned investors".

"Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month or a year from now".

"Over the long term, the stock market news will be good. In the 20th century, the US endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.

You might think it would have been impossible for an investor to lose money during a century marked by such an extraordinary gain. But some investors did. The hapless ones bought stocks only when they felt comfort in doing so and then proceeded to sell when the headlines made them queasy.

Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value. Indeed, the policies that government will follow in its efforts to alleviate the current crisis will probably prove inflationary and therefore accelerate declines in the real value of cash accounts.

Equities will almost certainly outperform cash over the next decade, probably by a substantial degree. Those investors who cling now to cash are betting they can efficiently time their move away from it. In waiting for the comfort of good news, they are ignoring ice-hockey legend Wayne Gretzky's advice: I skate to where the puck is going to be, not to where it has been".