

Cash in Your Portfolio: How to Make it Work Harder

For many investors, cash feels like a safe harbour in an uncertain world. Knowing that part of your portfolio isn't going anywhere can be deeply reassuring, particularly when markets are volatile. But like every investment decision, holding cash involves trade-offs.

Understanding what cash does well, where it falls short, and what easily accessible alternatives exist can help make your money work harder for you.

WHY INVESTORS HOLD CASH

There are three main reasons investors hold cash in their portfolios.



The first is **liquidity**, the ability to access your money when you need it. Cash is generally the most accessible asset class, though it's worth noting that certain structures, like term deposits, can limit that flexibility if you need funds before maturity.



The second is capital **stability**. Unlike shares or property, cash doesn't fluctuate in value. For investors who prioritise stability, this is a meaningful attribute.



The third is the **optionality** cash can provide during market volatility. Cash can act as "dry powder" allowing investors to act when opportunities arise, such as investing after market sell-offs or reallocating when asset prices adjust, without needing to sell other assets.

HOW MUCH CASH SHOULD YOU HOLD?

There is no universal rule – neither the Australian Securities & Investments Commission (ASIC) nor the Australian Prudential Regulation Authority (APRA) prescribes a specific cash allocation. The right amount depends on your risk profile, investment time horizon and personal goals.

That said, looking at how industry super funds approach this offers a useful guide. Data from major funds websites, including Australian Super, Aware Super and Hostplus, shows that cash allocations typically range from 3%–5% in growth-oriented options, 5%–9% in balanced options, and as high as 19%–45% in conservative or defensive options. The pattern is clear: the more defensive your investment goals, the more cash tends to feature in your portfolio.

THE LIMITATIONS OF CASH

Cash has a genuine role to play in portfolios, but it is not without risk. Here are five limitations that investors often overlook:

- 1 Inflation risk.** Over time, inflation can eat away at the real value of your cash. If the cost of living rises faster than the interest your cash earns, you are effectively going backwards in purchasing power terms, even if your balance looks the same.
- 2 Interest rate risk.** The income cash generates is generally not fixed. It rises and falls in line with interest rate decisions. When the Reserve Bank of Australia (RBA) cuts the cash rate, deposit rates often fall quickly, and sometimes faster than expected, reducing your income.
- 3 Liquidity trade-offs.** Chasing a higher deposit rate often means accepting restrictions. Term deposits, for example, may lock your money away or charge fees for early access.
- 4 Opportunity cost.** The old investing adage, *time in the market beats timing the market*, exists for good reason. Holding too much cash while waiting for the “right moment” to invest is a strategy that rarely pays off over time.
- 5 Pass-through risk.** Bank deposit rates are set at the discretion of individual institutions. They can be cut quickly, inconsistently and without much notice, meaning your income from cash may not behave the way you expect.

UNDERSTANDING THE SPECTRUM: CASH AND ITS NEIGHBOURS

Not all cash-like options are the same, and it's worth understanding where different products sit:

- **Term deposits** offer a fixed rate for a set period. Predictable but potentially inflexible.
- **Savings and cash accounts** offer floating rates that move with the market. Flexible, but your income moves up and down with RBA decisions.
- **Active short-term fixed income** sits one step beyond cash. It also offers a floating-style return, but one that is actively managed across multiple income sources, potentially providing more resilient outcomes than relying on a single bank's rate.

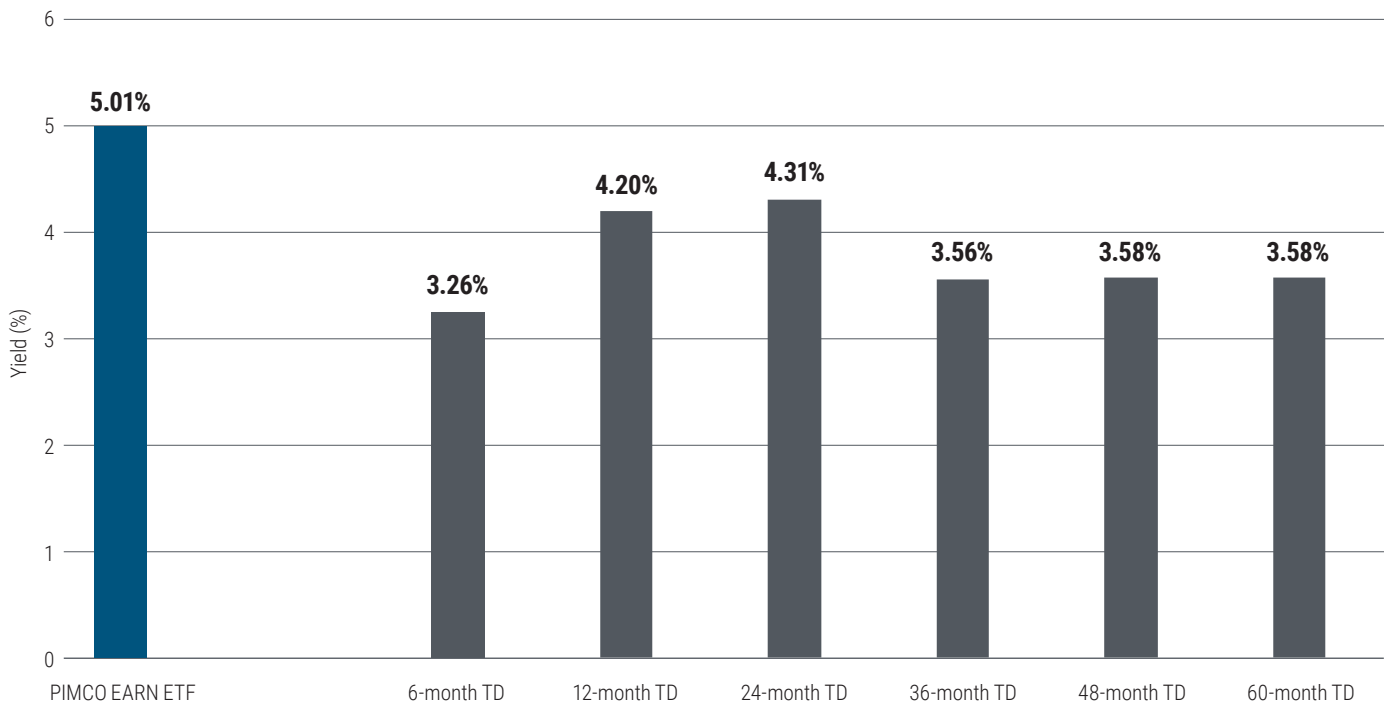
TAKING ONE STEP AWAY FROM CASH

For investors who want to remain defensive but are concerned about falling income, short-term fixed income is worth considering. Think of it as sitting between cash and traditional bonds on the investment spectrum, designed to provide defensive characteristics while offering the potential for a more durable income stream.

Short-term fixed income has very low sensitivity to interest rate movements, meaning its value doesn't swing significantly when rates change. Income is drawn from a diversified range of high-quality, short-dated securities, rather than relying on a single bank's deposit rate.

One way Australian investors can access this type of strategy is through a short-term fund, such as the **PIMCO Short Term Active Yield Active ETF (ASX: EARN)**. EARN invests in a diversified portfolio of investment-grade Australian and global bonds, targets monthly income distributions and offers daily liquidity, making it a cost-effective and accessible solution. As at 31 March 2026, EARN's yield compares favourably to the average term deposit rate across Australia's four major banks (CBA, Westpac, ANZ, NAB), based on balances over AUD 50,000.

PIMCO Yield Premium



Source: CBA, Westpac, ANZ, NAB as of 31 March 2026. On balances over AUD 50,000. Average term deposit (TD) rate defined as the average rate between the big four banks in Australia. PIMCO STAY Yield is represented by PIMCO's proprietary metric "Carry".

KEY TAKEAWAYS

- Cash has a genuine and important role to play in portfolios.
- But holding too much cash, or holding it too passively in term deposits or savings accounts, can quietly cost you through inflation, interest rates or missed opportunities.
- Understanding how much cash is appropriate for your goals, and where the limitations lie, is the first step to making it work harder.
- For investors who want to stay defensive but improve the quality and resilience of their income, short-term fixed income offers a compelling option, just one step away from cash.

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