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Cash as investment, entitlement to cash payout

Dear Sir or Madam,

Only a few months ago this author would never have thought it possible to write about this topic as hard cash seemed unsuitable as capital investment. However, this has all changed, due to negative interest introduced by the Swiss National Bank (SNB).

Cash and its value

First we would like to deal with the question of what cash really is. Apart from being in our wallets and possessing some kind of value, a further analysis is required. Bank notes are issued by the central bank, or rather, they are issued by the central banks of their respective countries. Wrong. This may be the case for Switzerland, but not for the Euro. In Switzerland, bank notes are issued by the SNB; within the EU it is the ECB and other banks. The central bank of Cuba issues the Peso and the Peso-convertible. This is quite a colourful mixture. Allow me to ignore coins in this instance. For a long time, central banks wanted to attach a real value to bank notes and signed up to the Gold Standard. At the same time, the countries signed up to currency exchange parities, under the Bretton Woods Agreement, which existed until 1973. A bank note was the equivalent of a certain amount of gold, and the US\$ the equivalent of this amount of GB£, Deutschmark, Italian Lira, and so on. The system's weakness – mainly the impossibility to control the market – led to its downfall and to flexible exchange rates. However, it was only in 1997 that the SNB dropped the Gold Standard.

The value of a bank note is no longer defined and has only an artificial value. More or less, money is just there, and its value is defined by the collective belief of the population in its currency. The Swiss Franc is much sought after as many people believe in its inherent worth. In fact, for a given amount of Swiss Francs purchasing power is greater outside Switzerland than within, as a result of the collective belief in the value of the currency. The Rouble is no longer worth so much, as a result of this collective evaluation. Many factors contribute to the evaluation of a currency: the economic situation, GDP, population, forecasts, and so on. The exchange rates give you a hint about a currency's value. Without comparison to other currencies, there would be no information about a currency's value.

Now that I have told you what a bank note is and that there is no effective value behind it, even if there still is a certain belief in this piece of paper, I would like to have a detailed look at hard cash as a financial investment. I would like to start with Swiss cash as financial investment.

Cash as financial investment

Profitability: there is no interest on cash, nor on most bank accounts. Costs are involved with either a bank account or a bank safe. At least there are bonds with 1-3% interest. Conclusion: cash scores poorly, but needs to be assessed individually. Some pension funds have huge amounts of cash in their safe as this is more profitable than a current account with negative interest. There are hardly any accounts with negative interest for private customers. Most banks pay a whiff of interest, but that does not cover the bank's fees.

Liquidity: cash has a high liquidity and is fungible, but is increasingly banned. European countries have introduced cash limits (e.g. in France) that are around the 1000 Euro mark, and Sweden has almost abolished cash. In Switzerland cash is still quite popular, and the ban on cash payments above CHF 100'000 was axed by parliament. Conclusion: It is increasingly difficult to use cash. A major problem is paying it into a bank account after a certain amount of time. Without any clear documentation it is almost impossible. It will be assumed that it is dirty money. When it comes to cash, bona fide possession as defined by civil law has been abolished (despite CC Art. 931 and 939).

Security: cash does have a secure value as the National Bank is behind it as creditor, whereas the situation with banks is uncertain. UBS was only able to survive thanks to being bailed out by the SNB. With cash there is a high risk of theft, and the contents of deposit boxes are not fully covered by insurance.

The SNB has equity capital and loan capital as liabilities. The amount of cash currently in circulation is a debt of the national bank. Its assets are investments, mainly foreign currencies which actually are wrongly named foreign exchange reserves. In reporting speak, reserve assets are usually under liabilities. The SNB's foreign exchange investments together with gold and other assets have reached the level of the Swiss gross domestic product – a level never reached before.

Cash also needs be evaluated in comparison with other investment categories. Long-term profitability is usually shown in the order of earnings intensity: Cash, gold, bank accounts, bonds, real estate, shares.

Cash reserves

The major problem will be the "history" of cash. To get back large amounts of cash into the banks' circulation in the future could be a major issue. Already today, large cash deposits are almost impossible, the same goes for a large cash withdrawals. At least the Federal Supreme Court had confirmed in a judgement that a bank's customer was entitled to a cash payment (BGE 4A_168/2015). Gold will also be facing the same issue. Anyone who has deposited large amounts of gold in private safes could face serious issues when trying to sell it via a bank.

However, cash can also be invested in other currencies. But this only makes sense if you continue to believe that the Swiss Franc will lose in value compared to other currencies. As history has shown this was never the case. There is no currency that has gained in value as much as the Swiss Franc within the last 50 years.

Sweden and Denmark are soon to abolish cash. The countries do not have to deal with these questions anymore. As a consequence all financial transactions are documented.

It is not only the account holder who knows about the account. This means complete and utter transparency when it comes to income, wealth and consumption.

Bottom line: even in times of negative interest, cash is not exactly attractive, and risks are involved with it.

On our own behalf: Your business domicile at Gartenstrasse

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Kind regards

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