

Issue #14 - “Dead Cash Walking”

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In August of 2012, the soon to be ex-Governor of the Bank of Canada and soon to be Governor of the Bank of England, Mark Carney commented on the vast reserves of dollars being held in cash accounts by corporations. Frustrated by Canadian business' unwillingness to put that money back into the markets and thus spurring economic growth, Mark Carney dubbed the cash piles “Dead Money” in an attempt to shame executives into putting their cash reserves to good use.

Earlier this week, Mr. Carney doubled-down on his past comments suggesting that until those dollars are put to use, economic stagnation will continue. An analysis of current cash positions of companies listed on the S&P500 show that cash levels are still near all-time highs. In the US, cash still sits around 10.8% of corporate assets, more than double where it was in the year 2000. ([Link to ZeroHedge Chart](#))

The most extreme example of cash hoarding is the tech darling Apple with cash on hand now over \$137 billion dollars. To put this into perspective, Apple has enough cash on hand to buy all outstanding shares of Visa, Cisco or Intel using just their cash on hand. Alternatively, it could float the bill for all of Canada's alcoholic beverage sales for over 7 years. Impressively, even that much spending at the LCBO would not earn you enough Air Miles to fly to Vegas. 😊

What can they do with the money?

The problem with corporations having so much money is that they are limited to where they can spend it, and eventually it has to leak its way back into the markets. Generally speaking, corporations are limited to doing the following if they want to remain accountable to shareholders;

- 1- Paying off debt
- 2- Reinvesting into the company (Research & Development, Training, New Manufacturing, Hiring, etc.)
- 3- Buying up other companies (Mergers & Acquisitions)
- 4- Paying the money to shareholders via dividends or share buy-backs

As you can imagine, most of these options would be excellent for the stock market and the general economy apart from paying off debt. Given record low interest rates, few CFOs are in a rush to do that. This means that companies are really only left with three options with how to spend their vast cash hoards to generate value for shareholders. Eager to get the economy back on its feet, Mr. Carney's comments seem justifiable.

Signs of Life...

Fortunately, there are some signs that this 'Dead Money' is now starting to show signs of life. For the first time since 2009, the cash hoard of the 500 largest companies in the US has actually decreased, meaning it is being sent back into the markets.

Over the last two years, we have seen surprising increases in dividend payouts to entice investors back into stocks. Apple famously began to pay a quarterly dividend for the first time in its history in 2012 while Canadian banks are paying dividends that are considerably higher than government bond and GIC rates.

Companies have also began to reinvest in their own growth with the “re-shoring” of manufacturing back to the United States as seen by General Electric and Apple leading the charge. ([Link to Economist.com](#))

Mergers and acquisitions (M&A) activity is also on the rise. The fourth quarter of 2012 saw an increase of 53% over the third quarter, while 2013 is off to a hot start with the US M&A scene has more than doubled year-to-date compared to one year ago. ([Link to HITC.com](#)) Recently, Warren Buffett and a group of investors announced their intention to purchase Heinz (Ketchup) and to make it private once again citing undervaluation of the stock.

What this means for you...

Such positive signs could mean the beginning of a recovery. Historically, corporate money has led investor dollars back into the markets. As such, this may finally be the jolt of life to get the 'Dead Cash' walking again. This will mean a nice rebound in portfolios and a more buoyant economy for everyone. Once the global recession is finally over, I hope that the party around the world will be large enough that even Apple can't afford it. 😊