"Never underestimate the value of cold cash."

Gregory Nunn

"It takes character to sit there with all that cash and do nothing. I didn't get to where I am by going after mediocre opportunities."

Charlie Munger

One of the really valuable lessons to come out of the global financial crisis is the positive value that cash can have in a portfolio.

During a bull market it can be easy to see cash as simply a drag on a portfolio's performance and tempting to hold just enough to meet our immediate liquidity requirements. But when markets take a downturn cash can really come into its own. By having the cash available (as well as the requisite nerve) there are occasions where it is possible to buy great companies at ridiculous prices. It doesn't take a lot of such purchases when markets are despondent to more than offset any negative effect of a cash drag during the good times.

And one of the great things about holding a healthy weighting of cash is that you are quite well rewarded for doing so. The at-call rate is currently 4.75% whilst term deposits are one and a bit percent higher depending on the term.

With the prices of some of our core holdings drifting to more attractive levels, and with the possibility of the coming reporting season revealing "disappointing" results for companies, particularly those with significant offshore earnings due to the strength of the Australian dollar, holding a healthy amount of cash in your portfolio may lay the foundations for some long term rewards.

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