

# Why I'm Piling Up Cash

## Description

With the TSX trading in all-time-high territory, so much uncertainty in the local and global economies, high valuations, and general bullish sentiment and expectations, the question as to how much further prices can go from here comes to mind.

### Rising interest rates

While rising interest rates are a good thing for the financial sector, in the longer term, the benefit of higher interest rates reduces as the cost of equity, and the cost of borrowing rises, and this affects that economy as a whole. Rising interest rates are also negative to equity prices, as the discount rate applied to futures earnings is higher and, therefore, the present value of the earnings is lower. While rates are rising off very low levels, and this may not be seen for a while, it is something to be cognizant about.

### Investor sentiment

We cannot have this discussion without considering investor sentiment. As we know, understanding the stock market is not just a mathematical or scientific exercise; it is also an exercise in psychology. We must understand the workings of investor psychology, the effect of greed and fear, and of "following the herd" and wishful thinking.

These days, investor sentiment is very optimistic. Rates have been low for so long, fueling stock market returns in large part through cheap money. But, as we know from the Dot-Com era, investor psychology can affect the market beyond reason. While the Dot-Com era is an exaggerated version of investor psychology creating euphoria, parallels exist; the TSX hovers in all-time-high territory — vulnerable to shocks and shifting the risk/reward relationship to unfavourable levels.

Two examples of companies that I would hoard cash for and wait to add to my portfolio are **CCL Industries Inc.** ([TSX:CCL.B](#)) and **Cineplex Inc.** ([TSX:CGX](#)). These are both companies that I think are extremely well managed and still have great long-term prospects.

CCL has a year-to-date return of 27%, and while I think this is a high-quality company that still has a lot of good opportunities ahead of it, the stock has done nothing but risen and now trades at a P/E of 29 times. Similarly, Cineplex trades at a P/E of 40 times and is due for a reduction in its valuation, in my view. Speaking strictly from a valuation perspective, I think there is risk to the downside.

While I am not a believer in timing the market per se, I am a believer that the "sell" decision is just as, if not more, important than the "buy" decision. Selling in overvalued conditions gives the opportunity to monetize some gains and get back into good stocks at cheaper levels.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:CCL.B (CCL Industries)
2. TSX:CGX (Cineplex Inc.)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

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