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Hedge funds tipped to raid US corporate cash mountain

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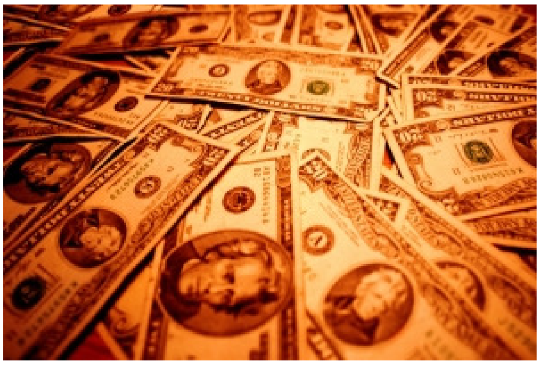
The total amount of cash hoarded by US companies reached $1.8 trillion last year, up from $1.6 trillion at the end of 2010, almost double the average level over the past 60 years.



Data from Swiss investment bank Credit Suisse shows the figure represents 6.1% of total assets, the highest proportion for two generations. At the previous peak in 1954, cash represented 5.4% of total assets. The figure has prompted expectations that hedge funds will now pressure companies to spend their money on acquisitions or return it to shareholders in the form of increased dividends.

Cash balances have risen in line with improving profit margins at US companies. These, in turn, have been on the increase because high levels of unemployment have reduced the wage-bargaining power of US workers. Companies have also been hoarding cash while fearful of the economic outlook.

Mark Burgess, chief investment officer of UK asset manager Threadneedle Investments, said: “Companies will put it to work at some stage, with dividends, share buybacks and M&A, all of which is shareholder friendly.”

Threadneedle is overweight US equities but Burgess said the companies would need greater confidence in the macroeconomic outlook before they released their cash. He said: “They had a near-death experience in 2008, and I don’t see them starting to spend it any time soon.”

US companies could, however, find themselves prompted into action by hedge funds. Companies in the technology and life science industries could be particular targets, according to a study on hedge fund activism published last month by law firm Latham & Watkins.

The study’s authors said: “Hedge fund attacks may increase in 2012 as there is expected to be more M&A activity, due to increased cash holdings by strategic acquirers. Based on information in recent Forms 10-K [SEC filings], many of the large repeat acquirers in the technology and life science industries are sitting on higher levels of cash than in previous years, and thus are in a position to engage in more acquisitions than in the past. This buyside demand may create an incentive for activist hedge funds to put more targets in play."

Kevin Pakenham, co-founder of investment banking boutique Pakenham Partners, said: "Hedge funds will be sharpening their knives. The market has gone through a remarkable recovery, and the hedge funds will be hoping for companies to take advantage of opportunities. However, I think other investors are giving companies credit for having strong balance sheets rather than castigating them for having too much cash."
Paul Lavin, a portfolio manager at fund of funds firm Goodhart Partners, said hedge funds would find it difficult to put pressure on good companies just because they have a lot of cash, but he said: "If a company has issues and cash, the activists will target it."

Cash hoarding by consumers has also hit a record. The amount of money in US bank deposit accounts hit $10.2 trillion at the end of 2011, according to data provider Market Rates Insight, up $800bn on the previous year.

Dan Geller, an executive vice-president at Market Rates Insight, said: "Consumers are still sitting on the economic sideline, unwilling to commit money to long-term accounts or other investment avenues."

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