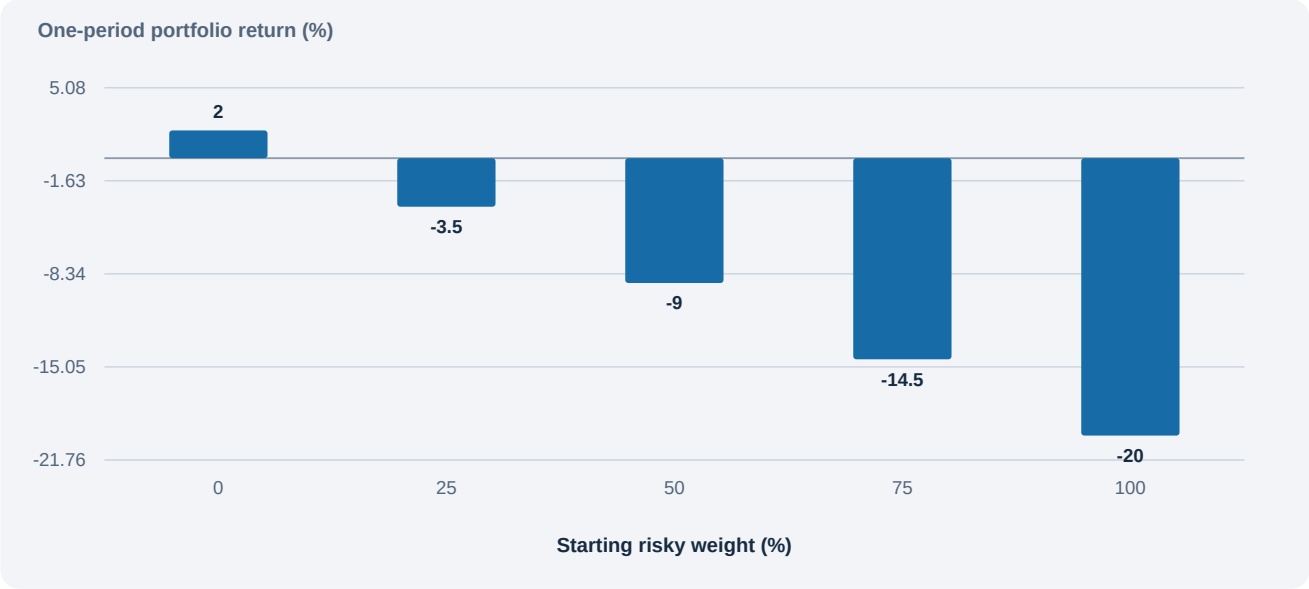
Cash allocation in a one-period return

Portfolio arithmetic | Original synthetic example | Edition 2026-11-26

Holding cash changes a portfolio's one-period return by replacing part of a risky asset's return with the cash return. Cash can reduce losses as well as reduce gains, depending on the period.

FORMULA Portfolio return = risky weight x risky return + cash weight x cash return

SCENARIO 01: Risky asset return -20%; other allocation 2%



WORKED EXAMPLE

A 50/50 mix returns 0.5 x -20% + 0.5 x 2% = -9%, without external cash flows.

COMMON MISTAKE

Calling cash a cost in every period ignores its contribution when the risky asset falls.

BEFORE YOU USE THE CALCULATION

1. Use beginning weights.
2. Include the actual assumed cash return.
3. Compare both rising and falling asset scenarios.

COMPARE TWO MORE INPUT SETS

Scenario 05: Risky asset return 5%; other allocation 2%. A 50/50 mix returns 0.5 x 5% + 0.5 x 2% = 3.5%, without external cash flows.

Scenario 10: Risky asset return 30%; other allocation 2%. A 50/50 mix returns 0.5 x 30% + 0.5 x 2% = 16%, without external cash flows.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.