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Money Market Mutual Funds

Money market mutual funds (MMMFs) invest in short-term, low-risk securities designed to give investors a safe place to park money while earning a modest return. Currently, these funds yield approximately 5.5%. I generally use a MMMF as a temporary holding in anticipation of needing cash reasonably soon. For example, MMMFs provide a haven for meeting near-term outlays of Required Minimum Distributions (RMD) for clients having that need. I may also use MMMFs as a substitute for savings accounts or certificates of deposit due to their attractive yields and greater liquidity.

In general, MMMFs invest in a range of low-risk securities, including Treasury bills, commercial paper, certificates of deposit, and municipal bonds. These underlying securities are very short-term, with maturities of less than one year, which helps to ensure a high degree of liquidity, meaning that I can easily convert them into cash quickly.

The primary goal of MMMFs is capital preservation. They are not designed to generate growth of capital or high returns, but rather a return that is competitive with other short-term investment options. As a result, MMMFs typically have low fees and expenses, which helps to maximize the return.

MMMFs come in two flavors. The first type invests strictly in short-term US T Bills, currently yielding around 5%. This type of fund is void of default risk since the US Government will not default regardless of what some investors may think. Fitch recently downgraded the US Government's long-term credit rating to AA+ while Moody's maintains a rating of Aaa. I am not worried about the US Government defaulting on it debt obligations and suggest you not to worry about it either. The US dollar is the most reliable international currency in the world; no other currency is about to replace it.

A second type of MMMF invests in US Treasury issues as well as other securities such as high-quality corporate commercial paper, credit worthy certificates of deposit, and short-term municipal bonds. I prefer investing in this second type of MMMF because the possibility of default is extremely low although not as fool-proof as a fund that invests strictly in US T Bills. This incremental risk generates a slightly higher yield than the first type currently around 5.5%

Overall, money market mutual funds present a good option for me when looking for a safe, liquid investment while earning a modest return. MMMFs do not represent a long-term growth option, but rather a short-term option when I need liquidity and safety.

Rational expectations state that equities should give a higher return than MMMFs in the range of 8-10%, although with more risk, which is why equites are good for growth.

I hope this short essay helps you better understand MMMFs. As always, do not hesitate to let me know your concerns or questions. All the best,,,Ron