HELM
INVESTMENT MANAGEMENT

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When the financial markets are in turmoil, you want to know that any cash cushion you may have built up is safe. But the extreme developments of the past few weeks make it worthwhile considering a super-safe, belts and suspenders approach to your cash.

The default cash position for most investors is a money market fund – typically a money market fund that allows money to automatically flow in and out from other investments, as stocks or bonds are bought, or as cash comes in from dividends, interest and maturing securities. Money market funds are a low-cost mutual fund. They invest in short-term and typically relatively safe fixed income issued by banks, corporations, the government and municipalities. The average maturity of these investments often is 90 days or less. Money market funds sell at $1 per share.

Money market funds usually are backed by their corporate parents. Two weeks ago, a large money market fund called the Reserve Primary fund "broke the buck." It was not able to hold the price of its shares at $1 per share. The most recent value given for the fund was 97 cents a share. This was the first money market fund to break the buck since 1994. Ameritrade, one of the brokerages that offered the fund, told clients it would commit money to try to make up any losses in the fund. According to the Wall Street Journal, the Bank of New York is taking a $425 million charge in the latest quarter to cover what it has spent to keep 10 of its money market funds from breaking the buck.

Two days after the Reserve Primary fund ran into trouble, the Treasury Department said it would make up to $50 billion available as a money market fund stabilization fund. The Treasury Department's program is temporary. In addition, it applies only to money already in money market funds as of September 19, 2008. Once the financial panic has subsided, the Treasury can end the program, leaving any risk in the hands of the funds, the brokerage houses that offer them and the investors that hold them.

Money market funds also fall under the Securities Investor Protection Corp. (SIPC) program. There are important differences between SIPC and the Federal Deposit Insurance Corp. (FDIC). FDIC will pay principal and interest owed on bank deposits, such as certificates of deposits (CDs), up to $100,000 for regular accounts and $250,000 for retirement accounts. The SIPC protects against brokerage failure but leaves other losses with the investor.

Investors have some good options for cash management, including:

- Use high safety money market funds. Most brokerages offer a handful of money markets funds. Some invest only in U.S. Treasury bills and short-term Agency debt – debt guaranteed by the U.S. Treasury. These are extremely safe but yield significantly less than other money market funds.
- Put more into a ladder of bank CDs, staying below the FDIC limits. Using publicly traded CDs bought through your accounts greatly reduces the hassle factor and aids quick reinvestment when the CDs mature.

It's hard to beat the benefits of a well-built CD ladder working in conjunction with a solid money market fund. The investor gets a higher average yield as well as the safety of being backed by the FDIC. Maybe this is the best belts and suspenders approach!

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