

## Seeking Safety for Sideline Cash Shirley M. Mueller

Published on Health Care Professional Live August 24, 2009

Parking money in these uncertain times can be a scary task. Nevertheless, it has to be faced to preserve dollars for better days. There will be a right time to put cold cash to work, but in the meantime, it needs to be placed somewhere safe where it can resurface dollar for dollar when needed. Hopefully interest will accrue as well.

The alternatives are few and the risk of losing money in traditionally safe investments is more pervasive than ever. Even money markets, which used to be sacrosanct, are no longer. They are not only paying next to nothing in interest, but can decrease in value so that a dollar invested in them could be 99 or 98 cents on the way out. This happened recently to an Ameritrade money market.

An alternative to money markets is short term bond funds. When interest rates rise, they are little affected compared to longer term bond funds because their time horizon is not as long. Many of them pay a nice dividend compared to money markets, for example, Vanguard Short Term Bond exchange traded fund (BSV). It yielded 3.3% as of June 30, 2009 with most money market funds yielding 1.0% or less. BSV invests in short term treasuries up to three years in maturity.

In spite of this, BSV has a negative yearly total return of -0.57%. This is because the total return fluctuates in value since it is composed not only of interest income, but also capital return, a measure of the ups and downs in a fund's net asset value (NAV). It is the assessment of the fund's total net assets divided by the number of shares outstanding. The recent yearly range for BSV was between 68.29-81.59 dollars per share. If someone was unfortunate enough to buy 100 shares at 78 and sell them at 73, the loss of 5 points per share or 6.4% would negate the portion of the 3.3% yearly yield gleaned in that time period.

One way large investors get around this nasty side effect is to buy BSV when it is below its NAV and to sell when it is above. Private investors don't have access to the daily NAV of the fund as easily as institutional investors. However, the NAV is given on the Yahoo finance website regularly. As of August 17th 2009, it was 79.25 with BSV opening at 79.65. This suggests that it was overvalued at that time.

Purchasing CDs is a more secure way to keep money safe. They pay less in yield than short term bond funds, but the money is protected, dollar for dollar, because it is backed by the Federal Deposit Insurance Corporation (FDIC) up to 250,000 dollars in each account for each issuer up to 2013. This means that a husband and wife could own XXY CD up to 250,000 dollars in each of their accounts for a total of 500,000 dollars for the two of them. Presently, the term of the CD cannot be beyond 2013 to be covered by the government guarantee.

CDs can be purchased on the web site of virtually every brokerage firm. Yesterday I bought three different CDs in a ladder, meaning they come due at different times. Note that the longer the maturity date the higher the interest because there is more time for interest rates to change and therefore more risk is involved. There is a premium for risk.

*The Bank of Baroda yielded 0.9% with a maturity date of August 26, 2010*  
*The First Bank of Puerto Rico yielded 1.05% with a maturity date of November 29, 2010*  
*Barclays' Bank of Delaware yielded 2.35% with a maturity date of August 27, 2012*

All come due before 2013 and they are from different banks (issuers) so each is covered up to the limit of 250,000 dollars by the FDIC. A down side is that taxes have to be paid out of the meager earnings these CDs glean. The good news though is that when the CDs come due I will have a dollar for every dollar that I put in them (plus some interest). This is not necessarily true for a bond fund of any type. The message: "Buyer Beware." Multiple factors affect the total return of any bond fund. Only the Federal government is responsible for the interest and payment of principle of a CD of similar maturity, at least up to 2013 with a limit of 250,000 per issuer.

#### **In a Nutshell**

For those who want to avoid risk and keep some money relatively liquid, short term CDs may be just the ticket. If the CDs come due before 2013, the government guarantees the principal up to 250,000 dollars per issuer. This is more secure than a short term Treasury bond fund, the price of which can fluctuate depending not only on expense and interest rates, but also supply and demand.