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Financial Connections
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Great Places to Stash Your Cash

The stock market may boom, but every silver lining is threatened by an occasional cloud. As a principle, it is tough to beat broad-based equity investing in stocks and stock mutual funds for long-term gains. But what about short- and intermediate-term risk? Not everyone can afford to ride out significant and prolonged down-turns in the stock market. For a host of reasons, many of us need to keep a goodly portion of our savings and retirement funds closer at hand and less subject to loss of principal. But we need not put these funds under our mattress and settle for less than is available to us. Here are some great places to stash your cash and keep it working as hard for you as you worked for it.

CDs—certificates of deposit

Ho hum. You probably think this familiar savings vehicle is too tame for your consideration. Not really. According to a recent comparison of locally available passbook savings and CD rates, you can increase your return by as much as 118% by moving your money from the lowest yielding savings account to the highest yielding 12-month CD. If you don't mind investing out of state at reputable banks offering the same federal insurance, you can push this increase up to as much as 146%. That is nearly 2½ times the lowest passbook rate, federally insured.

The best part about CDs is that they are federally insured with no fees or expenses to reduce your return. The worst part may be that you must have the amount required for the CD you want to purchase, and you have to lock up this amount for the required investment period or pay a penalty for early withdrawal. Even passbook savings has its place. Regular contributions to a passbook account can help you save up for CD purchases, while purchasing CDs with staggered maturity dates can provide adequate access to portions of your CD portfolio at periodic intervals.

MMFs—money market funds

These are a type of mutual fund that invests in low-risk, short-term securities with maximum emphasis on safety and liquidity. MMFs are not federally insured as are CDs, but the mutual fund industry proudly proclaims that no one has ever lost a dollar of principal in an MMF since their inception. MMFs offer lower rates of return than 12-month CDs but higher rates than passbook savings accounts, perhaps about ½ to 1½ percentage points higher. The higher rates make MMFs competitive with passbook savings.

The best part about MMFs is that while you can earn higher rates of interest, you retain ready access to your cash. The number of withdrawals within a given time period may be restricted but not the maximum amount of any withdrawal. The worst part may be that the rate of interest fluctuates, but it does so within a very narrow range. And, although your principal is quite safe, it is not insured.

Short-term bond funds

Short-term bond funds are a type of mutual fund. They stress safety of principal by minimizing the market risk that intermediate- and longer-term bonds and bond funds are subject to. The shorter the term, the smaller the risk from newer bond issues offering higher rates. Short-term bond funds, however, do fluctuate in value, no rate of return is guaranteed, and they are not federally insured. On the positive side, they offer relatively high safety of principal, withdrawals are permitted without penalty, and rates of return rival those of 12-month CDs.

Intermediate-term and flexible bond funds

To increase your return, you might consider intermediate-term and flexible bond funds. Both types increase your potential risk but also your opportunity for greater reward. The former balance risk and reward by selecting bonds that are in the middle of the road for bond maturities. The latter, also called multisector bond funds, include a variety of bond types from short-term to long-term, and even some high-yield or junk bonds. Through a diversified selection of bonds, these funds attempt to balance risk and reward.

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