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Money Market Funds

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With inflation predicted to continue in the double-digit range for some time, you may wonder how to protect the purchasing power of your short-term savings.

The best way to protect these savings is to get as high an interest rate as possible. One way to get a higher interest rate is in money market funds.

A money market fund is one type of mutual fund. Individuals invest in a fund by buying shares in it. Money in a money market is invested in a variety of short-term government and business bonds and other forms of short-term debt (not long term mortgages). Short-term bonds and debt must pay the current high interest rate which you, the fund owner, then receive.

Money market funds are especially good protection when prices are rising (when the rate of inflation is rising). When prices rise, interest (the price of money) will also rise, and so will the interest income on your money market fund. The increase in this part of your income will more nearly keep pace in the prices you pay. Of course, if short-term interest rates go down, so will the interest income you will receive.

Usually the rate of interest paid by money market funds is several percent higher than passbook savings accounts of various kinds or even one or two year certificates of deposit. The interest is computed and credited daily to your account so it compounds at the maximum rate.

The interest paid to your account will vary from day to day and month to month because the short-term interest rates change daily. This is different from savings accounts and certificates of deposit which have fixed interest rates. The total number of dollars you invest in the fund remain the same. It is only the amount of interest earned that will vary. If you invest $1,000 in a money market fund, it will always be there to withdraw along with the interest it has earned.

There are no penalties for withdrawing from a money market fund account. You can withdraw your money, with no loss of interest, at any time. In fact, many money market funds include check writing privileges. Checks usually must be for $500 or more.

Most money market mutual funds require a minimum initial investment of $1,000, although a few require only $300 to $500. There is also a minimum amount the investor may add to the account after it has been established. Some accounts require additional investments in amounts of no less than $25, others a minimum of $100. Usually there is no sales fee or charge for investing in this type of fund.

Although they are not insured like a bank account, there is very little risk investing in money market funds. It is suggested you buy a fund that has an established history. Money market funds, like other securities, are regulated by the Federal Securities and Exchange Commission.

Also, you purchase money market funds directly from the company. Many stock brokerage firms have their own. There are over 100 money market mutual funds. A free list of names and addresses is available from Investment Company Institute, 1775 K Street N.W., Washington, D.C. 20006. Most have toll-free numbers. If you call or write a company, they will send you a prospectus describing the fund, and you can call the toll-free number for more information.

If you are seeking information on money market funds, check the following sources.

Library

"Are Money Market Funds Still a Good Deal?", *Changing Times,* August 1980, pp. 37-42.

"Safe Places to Earn High Interest Rates?", *Changing Times,* January 1981, pp. 65-67.

Financial pages

The financial pages of newspapers list advertisements about money market funds.

Forbes magazine

This financial magazine lists and grades all mutual funds, including money market funds, each year in its late August issue.

Directory

For $12 you can obtain data on most funds by ordering *Donoghue's Money Fund Directory,* Box 540, Holliston, MA 07146.

Adapted for use in Oregon by Charlotte T. Harter, Extension economic education specialist and director of the Center for Economic Education, Oregon State University, from an article by the New Mexico University Cooperative Extension Service.

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