Money Market Funds: A Port in the Storm?

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Since the start of the year, money market funds have reported net outflows, as investors turn elsewhere for higher yields.1 It's no wonder: As of February 28, 2011, money market funds were paying a paltry 0.67% on average, according to BankRate.com.

Despite their current low yields, however, money market funds still offer the stability and liquidity that many investors seek when markets get choppy. Given the escalating crisis in the Middle East and the tragic situation in Japan, leery investors might want to consider parking some money in a money market fund until the storm blows over.

Money market funds are pools of short-term money market instruments that usually mature within one year. Unlike a bank savings account, they are not FDIC guaranteed and can lose value. They seek to maintain a stable net asset value of $1. Money market funds invest in short-term debt instruments such as bank certificates of deposit, commercial paper, repurchase agreements, and government-agency obligations. Money market instruments generally have a high credit quality, which implies that they have lower risk, versus other debt instruments, that their issuers will not be able to repay their debt. Because of this high quality, they are considered low-risk, conservative investments.

The Benefits of Money Market Funds

In addition to providing stability and low risk, money market funds also offer:

- **Liquidity** -- Money markets do not require you to invest your money for set amounts of time. You can access your money whenever you need it, without penalty.
- **Low fees** -- Because fund management is not as complex as it can be for other types of mutual funds, these funds can charge lower fees and expenses.
- **Daily valuation** -- Dividends are credited to your account daily, which ensures that your earnings are always up-to-date and available.

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- **Low minimum investments** -- Money market mutual funds generally offer lower initial investment minimums than other investments.
- **Check writing abilities** -- Many money market funds allow you to write checks against the balance, although there can be limits on this privilege.

But keep in mind that investing too heavily in money market funds can hurt your potential for long-term growth. Because money market returns tend to just keep pace with inflation before taking taxes into account, investments in money market mutual funds can actually lose purchasing power after income taxes once annual returns are factored in. So if you do shift assets into money markets until markets calm down, make sure you consider the opportunity cost and regularly reassess their place in your portfolio.

Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus, or if available, a summary prospectus containing this and other information, contact the appropriate fund company or view the fund prospectus on the Web site of the appropriate fund company. Please carefully read the prospectus or the summary prospectus before investing.

An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in these funds.

Current performance maybe higher or lower than the past, which cannot guarantee future results.

[1]Source: Investment Company Institute, March 2011.

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