

The role of a money market fund in your overall portfolio

Cash deposits at banks increased substantially during 2020 as clients built up cash reserves, despite low interest rates. The reasons for this are two-fold – those who held on to their jobs spent less on petrol and entertainment costs. In addition, the reality of the pandemic drove home the need for some sort of cash reserve or emergency fund.

However, money market funds offer investors higher interest rates and more diversity while still providing liquidity.

Start with the purpose in mind

Vehicles for a shorter-term investment should offer the investor the following:

- It should maintain the value of the investment and offer a low-risk investment option with low levels of volatility. (This is assuming the investor has exposure to growth assets in other longer-term investments to grow their capital).
- It should be liquid, i.e. provide ready access to the funds.
- It should generate a return above inflation.

Consider your risk appetite and profile

If you have a higher risk tolerance (and capacity) and are looking to grow your capital, then a money market fund may not be the best vehicle for you. If you have a longer-term investment horizon, then again, you may want to consider other investment vehicles.

Money market funds are ideal for short-term savings, and their liquid nature makes them ideal as an emergency fund. Having ready access to funds is pivotal to your overall financial plan as this will prevent you from having to take on debt when an emergency arises.

Money market funds are also a good “parking” place for funds

In times of higher volatility in the markets, investors may not want to place all their available cash

into an equity or a balanced fund. They may want to consider placing their cash in the less volatile vehicle (money market fund) and gradually phase their money into the market. This is a very different strategy from attempting to time the market. This approach seeks to prevent a large loss should the market experience a decline immediately after an investor has bought into the market.

Access to your funds

Funds in a money market are easier to access than for example, a bank fixed deposit. You're not locked-in to any investment period, and there are no penalties for accessing your funds in the money market. Because the money market is a unit trust fund, it offers more diversification and therefore protection as you don't have "all your eggs in one basket" as with a cash account. A money market unit trust invests across many banks whereas a fixed deposit is with one bank only.

Performance

Over the past year, an over-supply in short-term Government Treasury Bills saw their interest rate rise to 6.4%, which was higher than the interest rate on a cash account. This provided an opportunity for money market funds and those that had an overweight position in Treasury Bills over the last year have done well. Those that stayed in fixed-interest instruments would have struggled because of the drop in the repo rate, which declined by 300 basis points last year.

Historically, money market funds have tended to outperform regular cash accounts. Even in times when they don't outperform, they still offer diversification benefits and ready access to cash without penalties.

Glacier options

The Glacier Money Market Fund provides a compelling solution for those seeking a vehicle for their short-term savings. The Fund is backed by a solid investment team, sound investment processes and philosophies, and has a good track record. The Fund has a high exposure to the big four banks and is managed in a very conservative manner.

Click [here](#) for more information on the Glacier Money Market Fund.

We also offer the Glacier Cash Option which enables investors to access certain low-risk, interest-bearing unit trusts, without having to pay our usual platform fees, offering a very attractive option to park cash over shorter periods of time. Click [here](#) for more information on the Glacier Cash Option and its underlying investment options, which include the Glacier Money Market Fund. Investors looking to establish an emergency fund, or even to park cash for a short while, should still consider options that target a return in excess of cash, or that aim to do so in a tax-efficient way.

Investors who can commit a portion of their capital for at least a five-year time horizon, and who

are also looking for diversity between banks and seeking the tax benefits offered by a sinking fund, can consider our Fixed Return Options.

Click [here](#) for information on the Fixed Return Options.

Partnering with a financial adviser allows you to have confidence, knowing that you are making the right decisions to realise your goals, but also that you are in trusted hands to receive ongoing advice as and when your goals change.

Please consult with a financial adviser before you take any action regarding your savings and investments. This article does not constitute financial advice.

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