Why you need an objective for your money market fund

Issued by Glacier by Sanlam

Money market funds have always been popular with investors, but it's important to know *why* you're placing money in a money market fund. Are you looking to grow your money over the longer term, or are you placing it in a money market because it's the simplest solution?

Let's start by considering the pros and cons of this fund:

Pros

- The fund provides liquidity, i.e. you can access your money within a few days.
- The risk to your capital is lower than with a more aggressive growth-type fund.
- You can use the fund to "park" money in the short term, e.g. when market conditions are volatile, and phase this money in to a longer-term investment vehicle when conditions have stabilised.

Cons

- Because you're taking on less equity exposure and therefore have less risk, you will also receive a lower return than you would in a higher-risk growth-type fund.
- Growth assets protect your purchasing power over time, whereas the money you keep in a money market fund may not always keep pace with inflation over the longer term.

Once you've understood the advantages and disadvantages and established a need for a money market fund in your portfolio, the next step is to note that – as with tax-free savings accounts – money markets also come in two varieties, i.e. money market accounts and money market funds.

Money market accounts

These are typically with a particular bank and are similar to savings accounts in that you have immediate access to your money. This makes it a good vehicle for an emergency fund. It's important to note though, that you gain liquidity but in exchange you'll miss out on the higher return you may receive with a money market fund. This is because of the lower-risk nature of the account.

Money market funds

A money market fund, on the other hand, is a collective investment scheme (or unit trust fund) that invests in other underlying instruments. Although it is managed as a unit trust fund, it is not as volatile as a more aggressive growth-type fund. Because you're taking on more risk than you would with a money market account, your returns are likely to be higher.

Establish your objective and invest with intention

As stated at the beginning of this article, knowing your objective will help dictate your choice. As a starting point, everyone needs ready and immediate access to some form of emergency funding so if you don't have a savings account, then a money market account may be the first building block in your portfolio. This immediate access to cash would typically be to cover emergencies that can't wait - such as a car breaking down or a medical emergency.

Thereafter, a money market fund – with its higher return potential – can be used both as a vehicle to "park" funds that you wish to invest in future or as an emergency fund to cover those unexpected expenses that don't need to be dealt with immediately. Remember that it could take a few days to access your money as units have to be sold first – as with any unit trust fund.

If you place funds in a money market fund, do so with intention, not just because it's an easy option. Know whether your objective is to have immediate access to cash for immediate expenses, to grow a three- or six-month emergency fund, or to phase the money into the market. If, however, your objective is to grow your money over the longer term, then there are more suitable investment vehicles to help you achieve this. A qualified financial adviser will be able to guide you to the correct solution to meet your needs.

Click here for more information on the role of a money market fund in your portfolio, as well as the Glacier options.

Click here for the latest Minimum Disclosure Document which includes additional information in terms of money market funds

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

Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group
Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Reg No 1999/025360/07
Licensed Financial Services Provider | Glacier Financial Solutions (Pty) Ltd. is also a Licensed Discretionary Financial Services Provider FSP 770, trading as Glacier Invest | Sanlam Multi-Manager International (Pty) Ltd. | A member of the Sanlam Group

Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com *|*Reg No 2002/030939/07
Licensed Discretionary Financial Services Provider, acting as Juristic Representative under the Glacier Financial Solutions FSP 770
Glacier International is a division of Sanlam Life Insurance Limited
Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440
Reg No 1998/021121/06 | Licensed Financial Services Provider