

What Cash Management Tools Are Available?

There are a number of short-term cash management instruments available to the individual establishing a sound cash management program. These alternatives include money market mutual funds, Treasury bills, and certificates of deposit.

Money market mutual funds simply pool investors' dollars and purchase large denomination money market instruments. Individuals invest in the mutual fund for as little as \$500 and receive the advantageous short-term rates.

These money market funds are totally liquid and may be accessed by check, debit card, telephone, or wire transfer.

Money market funds are 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 per share, it is possible to lose money by investing in money market funds.

Mutual funds are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Treasury bills are simply IOUs issued by the U.S. government to meet its short-term need for cash. They generally have maturities ranging from 90 days to one year.

The minimum face value of Treasury bills is \$10,000, which makes them one of the least costly items in the money market. However, they are sold at a discount to face value with the full face amount being paid upon maturity. The difference between the discounted price you pay for the Treasury bill and the face value you receive at maturity is the interest, or yield.

Treasury bills are generally regarded as one of the safest investments available because they are backed by the full faith and credit of the federal government as to the timely payment of principal and interest.

There is an active secondary market in Treasury bills, so if you need access to your money instantly, you should have little difficulty in selling them. As with any investment traded in a secondary market prior to maturity, there is the opportunity for capital loss or capital gain, depending on the direction of interest rates.

An added advantage of Treasury bills is that they are free from local and state taxes.

Another relatively safe investment instrument is the traditional certificate of deposit (CD) that you may purchase from your local bank. Federally insured for up to \$250,000 per depositor, per institution in interest and principal, CDs offer you a fixed interest rate for depositing your money for a specific period of time. If you withdraw your money before that period is up, you may be subject to interest rate penalties.

CDs may also be purchased through most brokerage firms. The brokerage firm will shop the market and find the most attractive rate for you, even if it is out of state. This is something you might find difficult to do on your own. CDs purchased this way are called Brokered CDs.

CDs are most suitable for purchasing and holding to maturity. However, you may find it necessary to dispose of CDs prior to maturity. An important distinction between Brokered CDs and Bank CDs is the different means for early redemption. With a Bank CD, should you redeem your CD early, you will typically be assessed an early withdrawal penalty. Brokered CDs trade in the secondary market which provides you with the opportunity to sell your CD at prevailing market prices, which may be worth more or less than the original amount you invested.

Brokered CDs are more complex and carry more risks than CDs offered directly by banks. Brokered CDs may not be suitable for all investors. Before you purchase a Brokered CD, make sure you fully understand all of its terms and carefully read its disclosure materials provided by your financial professional.

The information in this article is not intended to be tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Emerald. © 2015 Emerald Connect, LLC