

Savings

Cash Equivalents

Every portfolio should hold cash. How much is a function of when you need to take money out (or maybe age). While there are many investment vehicles considered to be cash equivalents, we will consider a few common equivalents, while noting that T-Bills, often considered a cash equivalent, and the "riskless" rate of return, are discussed above.

Savings Accounts

Generally offered by Banks and Credit Unions, they are available for personal accounts and pay a nominal (read:low) rate of interest. It is the place to start.

Certificate of Deposit

Certificates of Deposit are issued by Banks and Savings institutions such as credit unions. They are usually insured by a governmental agency (Like FDIC, the Federal Deposit Insurance Corporation) up to \$750,000 per owner. Thus a married couple can deposit \$400,000 in insured CDs (\$250,000 in each partner's name only, and \$500,000 jointly held). CDs pay interest, which can be paid out or capitalized until maturity. Rates are generally comparable to T-Bill, T-Note rates (see the section on the Federal Reserve System in the prior session).

Money Market

Money Market funds are mutual funds, which invest in very short term issues, and offer liquidity (Often limited monthly) in the form of checking accounts. They generally pay a higher rate of interest than regular interest bearing checking accounts. They are issued by Banks, Brokerage Firms and other Financial institutions. They are priced to value at \$1.00, so if you have \$1355 in money market accounts, you have 1355 shares.

Commercial Paper

Commercial Paper are unsecured debt securities issued by companies for short-terms, with a maximum of 270 days. They are generally high quality. Commonly they are used by institutions and seldom by individual investors (except the really rich, and supposedly sophisticated ones

Repurchase Agreements

REPOs are generally offered by the Federal Open Market Committee (FOMC) . FOMC buys T-Bills from a dealer, who agrees to repurchase them a short time later at a prior agreed-upon price. The Dealer can pass them along to institutional customers. They are often cash management tools for short-term institutional investments.