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## In this weird world, cash beats stocks

Think cash is good only as a safe haven? Think again. These days, the return on cash can be better than the return on stocks. Here's how to lock in the top returns.

By [Tim Middleton](#)

Here's how upside-down the investment world has gotten lately.

"It is tempting to move more into cash, but I resist that urge because I don't want to chase the hot return," says Kevin Brosious, a financial adviser with Wealth Management in Allentown, Pa.

Imagine that: The current yield of certificates of deposit, around 5%, is two-and-a-half times the wretched 2% annual average return of the **S&P 500 Index** ([\\$INX](#)) over the last five years. Ditto the 1.9% three-year average of the **Lehman Brothers U.S. Aggregate Bond Index** ([\\$BNDUS](#)).

Unlike Brosious, I am not resisting the urge to boost my cash reserves, and neither are a lot of other investors. Assets of money market funds leaped \$43.03 billion in the first two weeks of this month, according to the Investment Company Institute. That took them to \$2.016 trillion, up nearly 10% from the year-earlier level.

### Three places to stash cash

As an investment, "cash" is not quite a no-brainer. There are some pitfalls, and if you don't shop it's easy to get skinned. As recently as 24 months ago, returns on cash were less than 1%, and most bankers and brokers are hoping you haven't paid attention since.

But once you know where to look, the process is simple. If you also use cash as a safe harbor -- a place to store 10% to 20% of your investment assets -- it can also be richly rewarding.

Your cash choices are three:

- Treasury bills
- Certificates of deposit
- Money-market funds

How you choose among them depends on the return you can earn and how much flexibility you desire. T-bills and CDs tie up your money for at least three months, whereas money-market assets are as accessible as the balance in your checking account.

### Flexible funds

I prefer money markets because of this flexibility, but these things are not all created equal. When you sell mutual funds and stocks, for example, some brokerage firms "sweep" the proceeds into a kind of limbo where returns are negligible.

"It is *very important* that people do not keep cash in a sweep account -- it pays virtually nothing," notes Charles "Chip" Simon, a planner with Taconic Advisors in Fishkill, N.Y. "They need to move the funds to a secure money-market fund."

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In the case of my broker, Charles Schwab, the interest on money in the sweep account is less than 2%. But Schwab also has the **Schwab Value Advantage Money Fund** ([\\$WVXX](#)), which currently yields 4.66%. I have to specifically instruct Schwab to put the proceeds of sales there, an extra step, but it's well worth the effort.

So the first place to shop for higher yields is your own broker's money fund. But that's hardly where the search ends.

## The return on cash

Instrument	Yield (%)
<b>Money-market fund</b>	
Schwab Value Advantage Money Fund ( <a href="#">SWVXX</a> )	4.66
Transamerica Premier Cash Reserve Fund ( <a href="#">TPCXX</a> )	4.91
GE Interest Plus corporate notes	5.17
<b>Treasury bills and notes</b>	
13 weeks	4.8
26 weeks	4.93
52 weeks	4.96
<b>Bank certificate of deposit</b>	
3 months, UFB Direct	4.94
6 months, Corus Bank	5.23
12 months, Corus Bank	5.37

Notes: Subject to varying minimum investments. Sources: Department of the Treasury, GE Capital, Barron's

"My favorite place to park cash is [GE Interest Plus](#) (corporate notes)," says Susan C. Elser of Fee-only Financial Planning in Indianapolis. The current yield for balances of \$50,000 or more is 5.17%, "and it comes with a checkbook (and it is) backed by AAA-rated commercial paper."

Another choice: "One good option that is often overlooked is a [PayPal](#) account ... currently earning 4.73%," says Adam J. Leavitt, a planner with Red Rock Financial Advisory in Tulsa, Okla. PayPal is the online money exchange system owned by eBay. It's simple to set up an account and the yield is likely to be higher than your own bank pays.

But local institutions can be competitive. Small banks in Atlanta, Ga., are offering 5.2% on money-market accounts, says Sammy J. Grant of SG Financial Advisors in suburban Sandy Springs. "There are many newer community banks in my area that are hungry for deposits to feed their lending business," he says.

The higher your balance, the more a money market will pay. Schwab's minimum in Value Advantage is \$15,000. But so many financial institutions are competing for deposits now, good deals abound, says Jeff McClarren, a financial adviser in Bellefonte, Pa., who uses banks such as Emigrant Direct, HSBC, Citibank and Capital One.

### Treasury security

If you can't earn a competitive return from your broker, or if you're willing to tie up your funds for at least three months, Treasuries and CDs come into play.

Currently three-month Treasuries are yielding 4.8%. To get that rate, you have to open an account directly with the Treasury. If you buy through a bank or broker, you'll pay a commission that will reduce the yield.

I called Schwab on June 14 and was quoted a yield of 4.57% on \$20,000 worth of three-month T-bills and 4.73% on \$40,000 worth. "The fact that Treasuries are free of state income tax makes the taxable equivalent yield (half a percentage point) higher than the actual yield" in high-tax states, notes Don Martin of Mayflower Capital in Los Altos, Calif.

(Speaking of taxes: In taxable brokerage accounts, a tax-free money fund is sometimes the best choice. Recently, **Alpine Municipal Money Market Fund** ([AMUXX](#)) was yielding 3.33%, the equivalent of 5.12% for someone in the top federal income tax bracket.)

### The downside of CDs

Banks and brokers also sell CDs, and here the competition is particularly keen. As of last week, UFB Direct was offering a yield of 4.94% on a 90-day CD, with a minimum deposit of \$50,000. Everbank was offering 4.74% with a minimum of \$1,500. CDs (and Treasuries) do have this negative: When rates rise again at the June 28 meeting of the Federal Open Market Committee, as everyone is expecting, money-market yields will go up but those on CDs you just bought will not. When interest rates are rising, "there is no reason to purchase CDs," counsels William W. Cox, a financial adviser in Paducah, Ky. Wait a few months for the peak.

Asking what to do with your cash presupposes that you have it. A lot of folks do, as witnessed by the growing assets in money-market funds. Money-fund assets are an inverse reflection of the state of the stock market. They peaked in November 2002, the bottom of the bear market, at \$2.309 trillion.

These assets bottomed in the current cycle at \$1.841 trillion in April of 2005, after the S&P 500 had rallied 30% from its 2002 low. Since then money assets have risen as the S&P has been extremely volatile, rising a few points and then falling nearly as many. This year the benchmark is down in the range of 3%.

Probably a majority of financial advisers would say everybody should hold some cash -- say 10% -- but that nobody should hold more or less depending on market conditions, because that is "market timing."

### Time to time

I, along with the investors behind these money-fund data, disagree. To me, it makes enormous sense to cut back on holdings of, for example, emerging-markets mutual funds right now. As I [explained](#) last month, that market trebled in three years and is now in a correction that's likely to last awhile.

And when I sold three-quarters of my emerging-markets fund, I had to decide what to do with the proceeds, and my decision was to hold them in a money-market fund. Cash is the most attractive investment option to me at the moment. Buying stocks amid their current extreme volatility is taking on more risk than I want to handle.

Meanwhile, my personal cash stash has risen to 17% of my portfolio, same as in my [model portfolio](#) of exchange-traded funds.

My colleague Jim Jubak is expecting the market to revive after September. I don't see any relief before November's elections. But elections aside, steadily rising interest rates are taking the stuffing out of equities. The prime rate -- the rate paid by at least 75% of American corporations, as well as untold home-equity borrowers -- is 8% and rising, and that is hard to afford.

So I would be raising cash if current yields were zero. The fact they are two to three times the returns of the competition makes them irresistible.

*At the time of publication, Timothy Middleton owned the following security mentioned in this article: Schwab Value Advantage Money Fund. Middleton writes about investing for a variety of publications, and is a radio commentator for WCBS in New York. A former reporter for the Dow Jones News Service and editor at Crain's New York Business, he works from home in Short Hills, N.J.*