Tom Mullooly: Hard to believe there's a science behind money market funds, but we're going to talk about it in episode twenty-nine. Welcome to the Mullooly asset show, I'm your host Tom Mullooly and this is episode number twenty-nine. Mickey Lolich, was this guy a great pitcher for the Tigers or what? Mets, typical Met trade, so Mets. They trade their best hitter, Rusty Staub, for a washed up Mickey Lolich by the time he came to the Mets and he was terrible. In fact, he knew he was terrible, he quit. At the end of the season he retired and he opened a donut shop up in Lake Orion Michigan. He actually came out of retirement a year later, and he pitched two more seasons for the Padres, but thanks Mets you traded away Rusty Staub and you got Mickey Lolilch. Good deal, anyway episode number twenty-nine is going to be a lot better than what the Mets got for Rusty Staub. We're going to talk about the science of money market funds and what we do when we do these videos is we get questions from our clients, we get questions from people who watch the videos.

It may not even be a question, it'll be, "Hey I had a question about something else," and that kind of spurred the conversation. We got a very interesting question about money markets this week, Casey's gonna read it to us and I'm going to kind of take the lampshade off the guy with the party when it comes to answering the science behind money markets. Casey what do we got?

Casey: I've been getting a lot of mail about money market funds recently, is any of this important?

Tom Mullooly: Surprisingly, money market funds can be complicated. Well they can be complicated if you want them to be. It's kind of like learning how a watch works. A lot of people don't care how the watch works, they just want to know what time it is. Money market funds kind of work the same way where a lot of people, they don't really care how it works, they just want to know that when they need the money the money's there. It was a big risk, going back to 2008 there was a question about whether the money was even going to be there, or not. There is a little bit of science behind money markets that a lot of people don't even take the time to look into. Let me start out with a question. Have you ever looked at your brokerage account statement, and you'll see the money market line, and it will say something like, "25,236." You think it's dollars, like, "oh so I have 25,236 dollars in the money market." Technically you don't. You have 25,236 shares at one dollar each. That's true, you don't have dollars you actually have shares of a money market fund, but the shares of a money market fund trade for one dollar and they have daily liquidity and there's no cost to get in or get out.

Why the shares? Well, technically ... In the business we all call it the money market fund, but the technical name is a money market mutual fund. That's right, it's a mutual fund. When you put money into a money market fund, that money gets invested in some super short term stuff. Investments that come due usually in thirty days, forty-five days, ninety days would be the max. The first this is, understand that you're investing in a mutual fund, so you have shares of a mutual fund. The second thing is, if you remember back ten or twelve years ago or even

further back, the yields on money market funds used to be a lot higher. I mean, it wasn't a surprise back fifteen years ago to see three and a half or four percent on a money market fund. Can you imagine a money market fund that would pay four percent today Casey? I mean, that would be outrageous, that's more than a thirty year treasury would pay right now for daily liquidity at no cost? I mean, that sounds fantastic. Those things aren't available now. Why is that? Why are rates on money market funds down near zero? It doesn't really make a lot of sense.

Well, to examine that you have to realize what was in money market funds years ago. The rules were a little looser on money market funds. Back then you didn't really have such tight restrictions on what could go inside of a money market mutual fund. 2008 changed all of that. If you go back to 2008, in the fall, Lehman brothers was in a lot of trouble. Lehman Brothers and a lot of other investment firms, all of them were circling the drain, they were all going out of business. Lehman Brothers was the one that finally went bust, and the problem is Lehman, like a lot of other banks and investment firms, were issuing a lot of short term paper. Stuff that would wind up inside of a money market fund. When Lehman Brothers ... I mean all these firms went down and so they had to kind of carry these things at face value, but when Lehman Brothers finally went down the drain all these money market funds that owned that paper had to pretty much write of or write down the value of their investments. There was no way around it, and so what happened was, you know the big rule with money market funds was whatever was in the money market fund whatever investments you have in it ...

At the end of the day, whether prices went up or down sideways or whatever, at the end of the day everything had to add up to a dollar per share. That's why you have one dollar per share on your statement. Well, that week that Lehman Brothers went out there was no more adding up to a dollar a share, a lot of money markets just couldn't reach a dollar, and so when they can't reach this dollar there's an industry term called "breaking the buck". If you wound up less than a dollar per share you were breaking the buck, and we started to see money market funds run a real risk that they were going to break the buck. Can you imagine? If you had twenty-five thousand shares at a dollar per share, you could have lost money in a money market. Does that sound silly? I mean, it's hard to believe and if that's a risky investment, then what about stocks and the stock market? I mean it was just a negative downward spiral, so what happened? Well, the government stepped in in the fall of 2008 and they said, "We're going to guarantee whatever you got in money market funds. They'll have US government backing for one year."

Until October of 2009 all money market funds were a guaranteed against loss. Pretty good. With that came some new rules, some more restrictions. The SCC has been working very hard to change what's permitted in a money market fund and pretty much now what's permitted in a money market fund is nothing. I mean, it's going to be really super short term stuff, and really super short term and safe stuff. Let's face it, that's what should've been in a money market all along. We're splitting even further now, what's happening is we're starting to see classes of these money market funds split. There's going to be an institutional class of money market

funds, their value can float it doesn't have to be a dollar per share. Then there's individual money market funds, those things won't float at all. Super long answer for a short question, I know that, but sometimes it's important to know how the watch actually works because there is a little bit of science behind money markets. Great question that we got this week, so keep those questions coming in, you'll never know what going to turn into a topic on a video. Thanks for tuning in and we'll see you on episode thirty. Going to be a good one, see you then.