The Price For Safety - Transcript

Tom Mullooly: In episode 207, we talk about the price investors are going to pay to keep their money safe. You're going to want to tune in. Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 207. Thanks for tuning in.

So what is the price for safety? The Federal Reserve has plunged short term interest rates to zero in an effort to keep the economy afloat here in 2020. So if you're concerned about the markets, maybe the election in November has you a little spooked, what can you expect when you put money into cash, into a money market, into a stable value account? Well, not much. And honestly, close to zero. A lot of folks have heard me use this phrase, you're going to need a microscope to see numbers that small. I was a little surprised when a client suggested that they move their retirement account into the stable value option that he has in his plan.

We get that a lot and it's a mistake. But I was more surprised when he said, "At least in stable value, I'm going to earn 4% there." Whoa, stable value in the past 12 months has earned a little over 2%, but stable is in all short term bond funds, some treasury, some corporate, the average duration is a little more than two years. And if you look at similar short term bond funds, current yield are well, well, well below 2% now and yields are continuing to fall. See, as short term bonds that these funds hold as they come due, the fund has to then reinvest that money at whatever the current rates are and they're pretty low. So it's really deceptive when you go online to try and compare the returns on short term bond funds. That only tells you what happened in the past 12 months. You're going to have a piece of that as your income and you're going to have some price appreciation as well.

So in the past 12 months, now, this is being recorded in August of 2020. So in the past 12 months, short term bond funds have paid out 2%, maybe 2% more or 2% plus, and some of these funds have made money because the bonds that they owned actually went up in price. So it's very, very tricky when you're comparing returns for bond funds and it's also very difficult to find yield, current yields. You also have to understand that when they cite a current yield, that was as of yesterday, it doesn't tell you what's going to happen in the next 12 months.

In fact, there was a Wall Street Journal article just today, we'll link to it in the show notes, that points out that some banks are now not taking the fees that they would normally earn on money market funds because the rates would be negative. That's how low rates have come in just the last couple of months with this action by the Federal Reserve.

So if you want to be safe, you want to be ultra safe, just understand it comes with a cost. You're not going to earn much if anything, on your money. Just something to think about before you start making wholesale changes to your accounts. As always, speak with your investment advisor, your financial planner when it comes to making changes to your portfolio. We're happy to help you out.

That's going to wrap up episode 207. Thanks for tuning in.