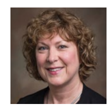
# 4 Reasons to Save in a Money Market Fund

Saving in a money market fund could be beneficial for your short-term financial goals.



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### KEY INSIGHTS

- If you're saving for something you'll need the money for in less than three to five years, saving in a money market fund may make sense for you.
- Money market funds are ideal for short-term saving because they invest in highly liquid securities with the objective of capital preservation and income.
- Money market fund yields have risen above 5%, benefiting from the Federal Reserve raising interest rates over the last couple years.

Money market funds are a type of mutual fund that may provide higher income potential than a bank savings account and more flexibility than certificates of deposit (CDs).

If you have an investment goal, you likely know when you're going to need the money and how long you'll need it to last. If you're saving for a goal that falls within the next three to five years, saving in a lower-risk investment with greater liquidity—such as a money market fund, bank savings account, or CD—may make sense for you.[1] Money market funds don't have the long-term growth potential of stock or bond funds; however, they are considered a more stable investment and can be especially useful for immediate- to short-term savings goals that you don't want impacted by market volatility.

### What is a money market fund?

A money market fund is a type of mutual fund that invests in short-term Treasuries and other money market instruments, including U.S. government securities and commercial paper. Due to the nature of the short-term investments, these are considered to be highly liquid, which means they can be exchanged for cash easily, giving investors access to their money when they need it.

Money market funds in general offer better yield than those available from a standard bank savings account. At the same time, the money market fund account will often accommodate some checkwriting privileges.

### What is a money market account?

While they sound similar, a money market account and a money market fund are two different financial products.

[1] Money market mutual funds, although not covered by the FDIC's federal deposit insurance, tend to provide slightly higher yields than bank savings accounts and CDs over time. Banks may provide money market savings accounts, which are different from money market mutual funds.

## Comparing Money Market Funds, Money Market Accounts, and Certificates of Deposit

When saving for short-term goals, these three vehicles may make sense, but they have distinct differences.

| | Money Market Fund | Money Market Account | Certificate of Deposit |
|---|---|---|---|
| Type | Investment product | Bank account | Bank-issued savings certificate |
| Liquidity | Gain access to the money at any time | Gain access to the money at any time | Hold funds for a set period of time[2] |
| Income and returns with yields | Typically offer better returns than interest-bearing savings accounts | May offer a fixed interest rate | Offer fixed interest rates typically higher than bank savings accounts |
| Risk | Low-risk investment, but not insured by the FDIC | Insured by the FDIC[3] | Insured by the FDIC[3] |

[2] If you take money out of the CD before maturity, you might face an early withdrawal penalty.
[3] These accounts are insured (up to $250,000) by the FDIC against the risk of bank failure.

Unlike a money market fund, which is an investment asset, a money market account is a type of bank savings account that earns interest based on an annual percentage rate. Like other deposit accounts, money market accounts are insured by the Federal Deposit Insurance Corporation (FDIC).

### Why do people invest in money market funds?

(1) Short-term goals. Money market funds are useful for short-term goals, such as saving for a vacation, a wedding, or a down payment for a house. In these cases, it may be more important that your savings hold their value over the shorter time period.

(2) Maintaining an emergency reserve. Having money outside of retirement accounts can act as a personal safety net to get through financial hurdles, such as a period of unemployment or an unbudgeted large expense. We recommend an amount that could cover three to six months of expenses. The accessibility of money market funds makes them a good option.

(3) Covering larger regular expenses. For example, many people pay property taxes, insurance premiums, or other larger expenses on an annual or semiannual basis using the checkwriting feature. An account earmarked for this purpose means there's no surprise when those bills come due.

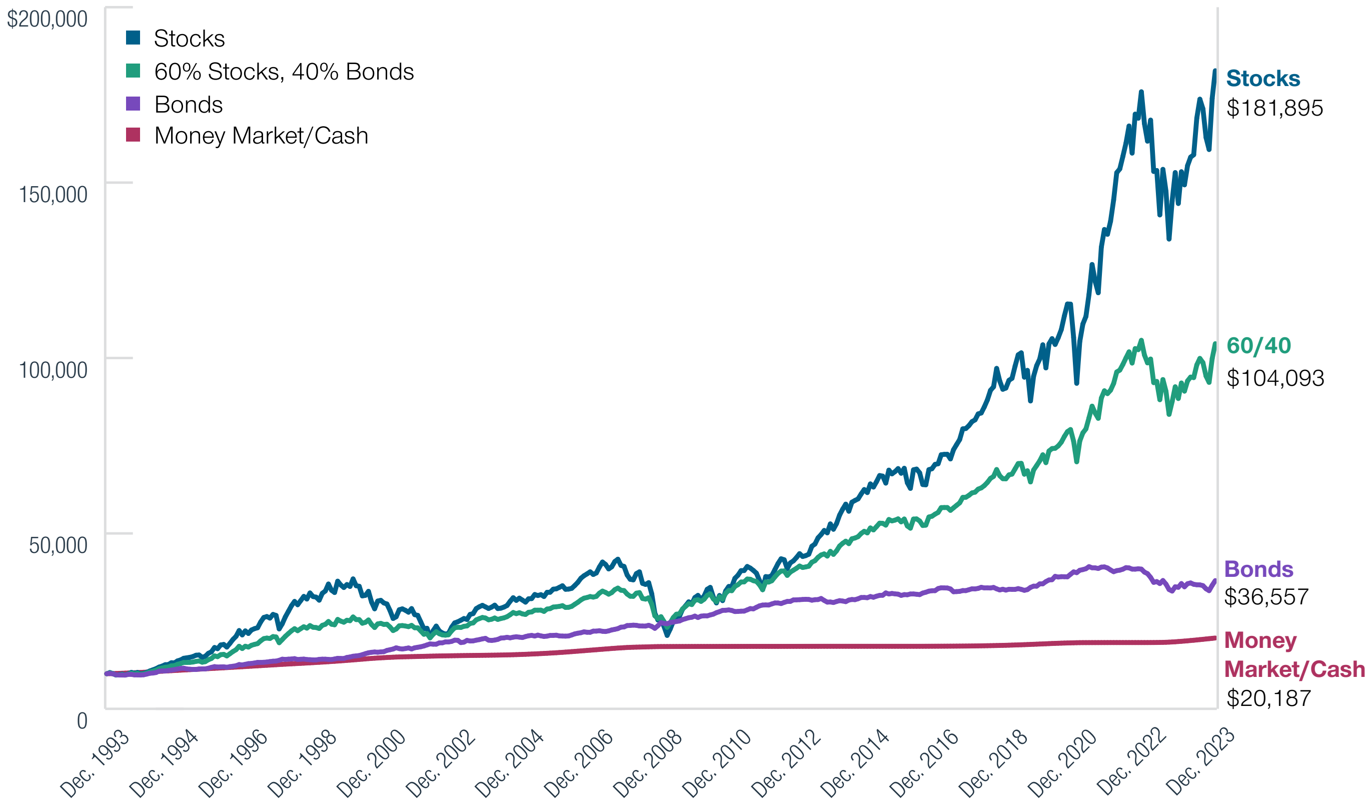
(4) Parking assets. A money market fund may also be used as a place to park or transfer assets, such as an IRA rollover, while trying to decide how to invest those funds for the long term. They should not be used as a long-term investment vehicle.

### Is a money market fund a good investment?

While money market fund yields are rising as they benefit from the Federal Reserve raising interest rates, money market fund investments aren't ideal for long-term investing, as the returns tend to be much lower than stocks and

## Money Market Funds Offer Stability With Minimal Growth

Growth of $10,000 for 30 years ended December 31, 2023: Stocks provide higher long-term return potential when compared with bonds or money market funds/cash. However, money market funds provide investors with stability, even during market volatility.




Sources: T. Rowe Price, created with Zephyr StyleADVISOR; S&P; Bloomberg Index Services Ltd.; and FTSE. See Additional Disclosures. **Past performance cannot guarantee future results. It is not possible to invest directly in an index.** Chart is shown for illustrative purposes only. Stocks: S&P 500 Index, Bonds: Bloomberg U.S. Aggregate Bond Index, and Money Market Fund/Cash: FTSE 3-Month U.S. Treasury Bill Index. As of December 31, 2023.
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bonds. The stability is what makes them appealing for the short term, but over time, the returns have not even kept pace with inflation.

### Stocks offer greater growth potential

Over a long-term horizon, stocks (or a combination of stocks and bonds, depending on one's risk tolerance) provide a higher return potential when compared with bonds or cash. In the chart above, the green line represents a 60/40 allocation of stocks and bonds, which has generated significantly higher returns than an all-bond portfolio, or one invested in money market funds or cash, with less volatility than an all-stock portfolio.

### How safe are money market funds?

There is little risk associated with money market funds. The U.S. Securities and Exchange Commission (SEC) mandates that only the highest-credit-rated securities are available in money market funds. While money market funds are considered to be one of the safest

investments, they have dipped below the target share value of $1 (known as "breaking the buck") during a few volatile markets or due to changes in inflation and interest rates but have quickly recovered.

### How long should you keep money in a money market fund?

The length of time you should keep investments in a money market fund will depend on your reason for using the fund. If you have moved your investments from stock funds to money market funds to try to avoid the effects of market volatility in your portfolio or to take advantage of higher yields, it may be wise to consider gradually reinvesting back into a diversified portfolio, as it is impossible to time the markets and know exactly when it might be most beneficial to jump back in. In fact, research by the T. Rowe Price Multi-Asset Investment team shows that investing in a diversified 60/40 portfolio slightly before or at the fed funds peak may be optimal, while investing after the peak still outperformed cash. The analysis considered one-year average returns over the prior four fed rate hike cycles.

### How do I invest in a money market fund?

Investing in a money market fund is very similar to investing in any other mutual fund and may require a minimum investment, may have an expense ratio, and can generally be purchased through a brokerage or financial services firm or directly from the mutual fund company.

When saving for a financial goal, it's important to make sure you're utilizing the most beneficial investment type for your goal based on its time horizon. Money market funds make the most sense for short-term goals and generally should not be used for long-term investing, such as retirement.

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