Money Market Mutual Funds

Money market funds are mutual funds that invest in short term debt obligations of corporations and governments–thus called money market mutual funds (MMMFs). They are NOT the same thing as money market accounts at financial institutions! Look at the chart to find out about their differences.

	Money Market Fund	**Money Market Account**
Interest Rates	Mutual funds– invest in short-term instruments such as U.S. Treasury bills and CD's. Yield changes every day based on rates in the actual instruments in the field.	Tied to some benchmark (such as one-year Treasury bills). Financial institutions usually have some control as to rate changes.
Yield	Higher yields than money market accounts	Lower yields than MMMFs
Safety	Not FDIC insured (but still very safe)	FDIC insured
Check Writing	Often check must be over $250	Process smaller checks
	Write checks with no charge	Possible charge for writing checks
	Some ATM withdrawal with fee	ATM withdrawal
Location	Farther away	Closer
Fees	Management, 12b-1	Financial Institution specific
Taxes	You can earn tax-exempt interest at the federal and state level by investing in tax-free MMMFs	the interest you earn on all bank accounts is fully taxable

Most financial advisors suggest keeping 3 to 6 months of living expenses in an emergency fund–this is a great place to keep those funds! MMMFs are also often used as a "parking place" for short-term dollars, while you research other investments worthy of your cash.

Advantages
- Ability to transfer money into and out of stock, bond, and other mutual funds–once you've established a MMMF, you can invest in other funds within the same family without filling out an application
- Have an excellent track record
- You can earn tax-exempt interest at the federal and state level by investing in tax-free MMMFs

Disadvantage
Inflation risk–don't let your funds sit idle (unless you're using them for an emergency fund). Learn what you can do with them then put them where you can earn a higher interest.

MMMF Expenses
Pay particular attention to management fees charged when shopping for a MMMF; these account for the differences in yields amongst MMMFs. Be aware of MMMFs that waive their management fees for a period of time to attract assets then levy the fee, thereby dropping the effective yield. Also, be wary of 12b-1 fees–they take money off the TOP of your cash, so you get no return from those dollars.