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Finding the best return for your cash

Cash should never be idle

Investors are sitting on a lot of cash. The Investment Company Institute reports total U.S. money market mutual fund assets are currently $2.632 trillion with $1.705 trillion attributed to institutional investors and $926.38 billion to retail investors. Canadian investors are similarly positioned. An Edward Jones poll shows that Canadians currently hold 13% of their money in GICs and one-in-four plan to expand their cash and short-term holdings.

The financial crisis remains fresh in the memory of some and Canadian market volatility keeps the image vivid. In addition, speculation surrounding the U.S. Federal Reserve and its eventual tapering of Quantitative Easing has prompted some fair sized market movements, as have reports of slowing growth in China. Given such conditions, these investors consider their heavy cash weighting to be prudent.

Some investors set cash aside for planned expenses or emergencies, while others want the flexibility of moving quickly when market volatility generates bargains. A number simply like the idea that cash is an asset that won't suddenly drop in value, thereby providing capital preservation. Whatever their reasons, holding cash should not be passive and investors are wise to seek the best return.

Over the short-term, some may find it easiest to opt for investment savings accounts. These products trade in a similar fashion to money market mutual funds, but without the high fees. Investment savings accounts have competitive rates that change with the market; the funds are not locked-in and can be easily accessed within one business day; and they are insured up to $100,000 by the Canada Deposit Insurance Corporation (CDIC). There are multiple issuers available in Canada, so investors can protect more than $100,000 at a time by spreading funds through the various issuers up to the insured limit.

Investors can purchase short-term Guaranteed Investment Certificates (GICs) that generally pay a higher interest rate and provide the security of knowing the principal is returned at maturity. Those acquired through CDIC-member institutions are also insured up to $100,000. With interest rates expected to rise over the next few years, investors should stick with shorter terms.

For investors with a slightly higher risk tolerance, certain short term bond funds have the potential to offer value. Most of these products offer exposure to short-term corporate bonds that generate higher income than comparable money market funds. Although these bond funds are on the lower risk side of the investment spectrum, investors should be aware that they are still subject to price fluctuations.

Cash is a short-term tool and eventually will need to be deployed into higher returning investments.

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For those with a higher risk tolerance, dividend-paying investments could be the next stop. They are more tax efficient; they offer an attractive income; and they tend to be defensive in nature.

Cash should never be idle and there are many solutions available for investors wanting to put it to work. It makes sense to shop around for the best products.

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