# Making the Most of Your Money

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# Inflation Affects Money Market Funds' Cash Returns

If you pulled all or some of your retirement investments out of the market in 2008 or 2009 and have been sitting on the sidelines, you are not alone. I see and hear about this situation often.

It is great that you have a healthy fear of the market, but perhaps, you are in a situation in which you need to get some sort of return on your money, as sitting in cash alone is not going to get you where you need to be.

Leaving your money in cash essentially depletes your assets. For example, the Vanguard Money Market Fund pays 0.04 percent and Northern Trust pays 0.15 percent (and there is an annual $25 charge for the account).

Compare that with 2011's 3.2 percent inflation rate and that of the end of March: 2.9 percent. This number is called "core" inflation, which means it does not include food and energy cost increases. Taking inflation into account, for every $10,000 you have in a money market fund, you are losing approximately $280 in spending power.

Food and energy are not included in what is typically reported as "core" inflation as the price changes are more volatile, and experts feel that these factors skew the inflation number unrealistically. However, food and energy very much contribute to household expenses. Over the last 12 months (ending February 2012), food rose by 4.5 percent, and energy increased by a whopping 12.6 percent.

To calculate your personal inflation rate, assume conservatively that one-third of your expenditures is split equally between food and energy. Then, your personal inflation rate becomes 4.7 percent. Under this scenario, a $10,000 money market fund loses $460 per year. A $50,000 balance loses $2,300 a year.

An alternative? Consider a diversified investment portfolio that will give you more return. Recognize that you will risk some principal as you move up the scale of potential returns.

My next blog will discuss getting back into the market if you have been holding much of your assets in cash.

Disclaimer: The views expressed in this article are the opinions of the author and should not be interpreted as individualized investment advice. Investment objectives, risk tolerances and the financial situation of individual investors may vary. Please consult your financial and tax advisors before investing.

Tagged as: *inflation*, *money market fund*, *investment*, *cash and making the most of your money*

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