



Making money on your cash

It just got harder, thanks to the Fed. But here are some ideas.

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The Fed is cutting rates yet again. But don't feel bad if you don't feel like yelling "Yippee!"

That's because you know another rate cut means the already-low yields on your income-producing savings are probably heading south.

Certified financial planners Doug Flynn and Pran Tiku are advising their clients to stay very short-term with their sideline cash because they anticipate interest rates are just about bottomed out and have only to go up from here. "Stay liquid. There's nothing wrong with staying short-term now until you see where things are going," Flynn said.

That means they're not in favor of their clients locking up money in certificates of deposit (CDs) with maturities longer than six months or a year; or in bonds with intermediate or long-term maturities since they're likely to suffer price depreciation as interest rates rise.

Here's a rundown of some ways they've suggested to make the most of your sideline cash in these days of piddling yields. Keep in mind, the longer your time horizon, the more risk you can afford to take in the hopes of a higher return. The further down the list you get the higher the risk you'll assume.

Time horizon: A year or less

Money market: The risk with money market mutual funds now is that the yield you earn won't exceed the annual expenses you're charged. So the onus is on you to shop around for the lowest-cost funds with the highest yields. Currently, money market deposit accounts are averaging about 1 percent, while money market mutual funds yielding slightly more than that.

And there may be some banks offering money market deposit accounts (which are FDIC-insured) with yields just as high as those on money market mutual funds.

Remember, Flynn said: "You don't have to keep your money in the local bank." There may be some banks with competitive yields that offer consumers free electronic fund transfers between their money market accounts and their regular bank accounts.

To help you find the most competitive money market options, check out CNN/Money's [rate search tool](#) or Quicken's [savings rate finder](#).

Six-month CD: The average rate on six-month CDs is 1.06 percent, and a three-month CD is yielding about 0.95 percent. Tiku doesn't see a big change in interest rates in the next six months, so if you're willing to lock up your money, he doesn't recommend doing so for more than six months.

Flynn advises investors to only invest in CDs if their yields beat out the going rate in a competitive money market account. If not, it's better to stay liquid and stick with the money market.

Time horizon: One to three years

Ultra short-term government bond funds: These funds have returned an average of 2.70 percent on a one-year basis and 4.55 percent a year on a three-year basis, according to Morningstar.

When picking one, Flynn said, check to see how a given fund performed relative to its peers in 1994 and 1999, both years in which interest rates were on the rise.

Bond funds tend to suffer when rates climb and if the fund you're considering has done well relative to its peers during those years and the returns it delivered are ones you can handle, then that might be a good bet for you. "If rates go up, you'll know what you're in for," Flynn said.

Ultra-short adjustable-rate mortgage funds: This category of bond fund is comparable to ultra-short-term government bonds in terms of return. They invest in government-backed adjustable rate mortgages (ARMs) with durations typically less than a year. These are a good bet if you want to stick with government-backed securities and don't feel comfortable taking on the higher risk short-term corporate bonds, Flynn said.

Time horizon: Three to five years

Ultra short-term bond funds: If you believe rates will rise in the next three years, Flynn recommends sticking with ultra short-term bond funds. If you move into a longer maturity bond fund, and rates do rise, you potentially will make no money or even may lose money, he said.

High-yield (junk) bond funds: Year to date, this category of bond fund has been yielding about 14.4 percent, according to Morningstar.

Flynn tells clients to treat junk bonds as they would equities - as a place to invest if you have a time horizon of six years or longer. That's because they can be just as volatile as stocks.

Tiku normally agrees, but thinks junk bonds are currently the sweet spot in the fixed-income world since they tend to be among the best bond performers when the economy is coming out of recession.

Among his favorite high-yield funds is the [Columbia High-Yield Bond Fund](#), which tends to invest in the highest grade junk available, Tiku said.

International bond funds: The world bond fund category has yielded 8.84 percent year to date, according to Morningstar.

The emphasis in world bond funds has been Europe of late. Tiku sees less risk currently in European bonds than in U.S. bonds because there's a greater likelihood interest rates will go down in Europe over the next three years than they will here. (When rates go down, bond prices go up.)

The fund he often uses for clients' money is [Pimco Global](#).

Flynn cautions investors to keep an eye on where a fund is investing. Currently, European bonds are considered to be the safest bet, but whenever you invest in an international bond fund, the fund manager is free to invest in other areas of the world as well. The return on your investment will be subject to currency fluctuation and political changes. ■