

UNDERSTANDING THE DIFFERENCE:

MONEY MARKET MUTUAL FUNDS VS. MONEY MARKET DEPOSIT ACCOUNTS

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Editors Note: Last week, the U.S. Treasury Department established an unprecedented, voluntary one-year guaranty program insuring U.S. money market funds in order to stem losses resulting from global financial market turmoil. Many consumers are confused between money market deposit accounts (MMDAs) and money market mutual funds (MMMFS). Understanding key differences is imperative so we thought your readers would find the following explanations helpful. Readers who are still unsure which type of account they own should consult their statements or their banker.

Money Market Fund

A money market mutual fund is a short-term mutual fund that invests in government securities, certificates of deposit, asset-backed commercial paper and other highly liquid securities. Money market funds sell shares to investors and earn interest based on performance. However, if the fund suffers a major loss, the shareholder has no guarantee that the investment will be repaid. Until last week, these investments carried no insurance. However, the new guaranty program applies only to those money market funds that pay a fee to join it, and would only protect assets invested prior to September 20, 2008 for a period of one year.

Money Market Deposit Account

A money market deposit account is an interest-bearing savings account that typically earns more than a regular savings account, but less than a money market fund. MMDAs are also less risky than MMFS: they are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$100,000 per depositor per insured bank and up to \$250,000 for some retirement accounts.

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