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How to use bond and money funds

Bank money-market accounts, backed by federal deposit insurance, typically have lower yields than money-market funds offered by investment companies, which are not insured. With nonbank money market funds, each share is pegged at $1, and in theory the price does not fluctuate.

In our view, money-market funds should be viewed as a temporary "parking place" for cash. In general, you should not be drastically shifting your bond portfolio to chase yield or to retreat into the "safety" of money market funds. Remember, current yields reflect everything that investors know and expect regarding the future course of interest rates.

So, unless you have a strong feeling regarding the outlook for rates, maintain a bond portfolio that suits your risk tolerance and return requirements. For most investors, matching your bond investments with your time horizon makes sense. For short-term goals (up to 18 months), the best investment may be a money-market fund.

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