Money market funds and savings accounts, the key differences.

03 May 2021 - Investing in the stock market has played a key role in helping investors diversify their portfolios. Money Market funds and savings account are instruments used by investors and savers, looking to grow wealth in a risk averse manner.

Nicholas Riemer, Head of Investment Education at FNB Wealth and Investments, “In times of economic downturn and market pull backs, savings vehicles play an important role in protecting your wealth, if not for now but for the future as well. There are however key differences in the various savings solutions that investors/savers need to be aware of.”

A savings account is a savings instrument which allows customers to deposit funds and receive a return in the form of interest. Most savings accounts allow flexibility in adding and withdrawing funds based on the customer’s needs. The financial institution through which the customer opens a savings account guarantees the capital balance and returns.

Money market funds are mutual funds that investors make use of for relatively low-risk holdings in a portfolio. Money market funds invest in short-term debt and cash instruments and pay out earnings in the form of dividends. Unlike a savings account, investor capital is not guaranteed in a traditional money market fund and because of the higher risk, offer investors higher potential returns.

Investors utilise money market funds as they offer higher returns than traditional savings instruments and are a useful tool when diversifying risk. Money market funds are liquid and offer investors flexibility when buying and selling. “The risk when investing in a money market fund, is that principal capital can decrease in value and is not guaranteed by the financial institution as the capital is invested in the market on behalf of the investor. Interest rates can also vary over the period of the investment depending on the type of fund utilised,” says Riemer.

Although this instrument has a higher risk than a traditional savings account, money market funds are still considered low risk investments due to the types of short-term cash instruments invested in and offer investors a useful solution when looking to grow wealth sustainably.
“Investors should consider incorporating money market funds into their investment strategy. Instruments like money market funds and savings accounts are useful tools that should be considered by investors looking to spread total portfolio risk, building a portfolio that will stand strong against future market events,” concludes Riemer.