MAKING CENTS

BEST PLACES FOR RAINY DAY FUND

-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®

OK, so you finally did it. You've established an emergency savings fund with at least six months' worth of living expenses in it. While meeting that fiscally prudent goal earns you a pat on the back, your work isn't over. Now you have to figure out the best place to put the money - someplace where it will earn some interest and where it won't be an easy withdrawal temptation.

Notice I said "earn some interest" - that's because an emergency cash fund is a savings fund, not extra dough to use for investment or speculation purposes. In the event of an immediate cash flow problem, you're going to need to get to those hard-earned savings pronto. "Conservative" and "accessible" are the two key words if you established an emergency fund in anticipation of a decrease in your income within a year or two.

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A safe short-term account that offers total protection is where your six months-plus of living expenses belongs. A bank's money market account is a good option, particularly if you take the time to shop around for one offering higher-than-average rates. Money market accounts at banks are federally insured and typically allow you to withdraw several times a month without penalty. Most banks have two yields, one for smaller accounts, and one for larger accounts with typical minimum balances of $10,000.

A bank certificate of deposit is another place to hold your emergency cash. They, too, are federally insured, but there is a problem with CDs: You could face substantial penalties for withdrawing your money early.

You can also go with the standard passbook savings or interest-paying checking account. Although the interest paid on these accounts is negligible, some people prefer the security and accessibility that these accounts provide.

It could be that your present cash flow situation is quite good, allowing you the leisure to look for a higher yield for your emergency fund. In that case, you might consider a money market mutual fund. A money market mutual fund is a portfolio that invests in a diversified collection of extremely short-term debt securities. The average debt maturity held in these funds cannot exceed 90 days, making them both lower risk and stable. But money market mutual funds are not federally insured and they can go down in value.

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