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Analysts say quality bond funds should stay safe

By Kathy Chu, USA TODAY
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Despite the latest upheaval in the credit markets — fed by the collapse of Bear Stearns (BSC)— most investors have little to fear about the safety of their investments in money market funds and high-quality bond funds, analysts say.

And those who wonder if other brokerages could collapse, wiping out their accounts, likewise needn't be concerned. Brokerage account funds are generally protected by the Securities Investor Protection Corp. (SIPC), a non-profit organization that covers up to $500,000 in cash and securities if your brokerage firm goes bust.

In turbulent markets, investors have historically sought a haven in traditionally safe investments such as money market mutual funds and Treasury bonds. Money funds are appealing because for every dollar invested, investors historically have gotten a dollar back, plus interest. Unlike bank money market accounts, though, money market mutual funds are not federally insured.

The safety of money funds has been called into question in recent months by their exposure to subprime mortgages. Many such funds invested in structured investment vehicles, or SIVs, which use short-term loans to buy longer-term assets, such as mortgage-backed securities. As mortgage securities have deteriorated, SIVs have passed along some of these losses to money funds.

The threat that money market funds will "break the buck" — meaning their net asset value falls below $1 a share — has led 12 financial firms to shore up money funds they run through cash infusions or other measures, according to Crane Data.

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"We may see a few more trickle out in semiannual filings," says Peter Crane, founder of Crane Data.

Still, the collapse of Bear Stearns, and the credit market turmoil that has resulted, is unlikely to threaten money market funds' net asset value, analysts say.

"These funds will move heaven and Earth to preserve their $1 net asset value," says Greg McBride, a senior financial analyst at Bankrate.com. "If they break the buck, money would flow out the door to their competitors at the drop of a hat."

The latest shock to the credit markets will continue to send more people to cash investments, such as money market funds, and to the safety of Treasury bonds, says Jeff Tjornehoj, a senior analyst at Lipper, a mutual fund tracking firm. Meanwhile, investors are likely to seek out the highest-quality corporate bonds but stay away from risky high-yield corporate securities, analysts note. "It's all about quality," Tjornehoj says. "Anything that has the smell of risk is getting sold."

Already, since August, investors have yanked billions of dollars from stock funds and parked them in more conservative investments. As a result, assets in money market funds — historically considered one of the safest investments available — have soared to record levels, reaching $3.54 trillion in the week ended March 12, according to the Investment Company Institute.

Scott Berry, a Morningstar analyst, says that while few investments are "bullet-proof" at the moment, "Money market managers are positioning their funds as safely as possible," minimizing the risk that these funds will fall below $1 a share.