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**Money Market Rules – Floating Values, Liquidity Fees and Ability to Suspend Redemptions with “Gates” in times of market stress.**

Have you read your money market fund prospectus lately? It it’s not a U.S. government securities fund, you may be surprised to read about floating values, liquidity fees and gates. These restrictions took effect in October 2016 if there is a major market disruption. Fortunately, they have not been needed yet, but you should be aware of them.

There are basically three types of money market funds; U.S. Government, Prime and Tax-exempt Municipal funds. Prime funds invest in short-term corporate debt which usually pay a higher interest rate then funds holding government guaranteed debts.

Background & History

When Lehman Brothers failed in 2008, the global repo and commercial paper markets were frozen. Money market funds probably would not have even been able to open after that weekend. At the last minute, the Federal Reserve and other Central Banks provided massive liquidity and the Fed guaranteed money market holdings to calm the markets and avoid a global financial meltdown. Most money markets hold short-term commercial paper - the lifeblood of financing that companies use to fund their inventories, payrolls, and other short-term cash needs.

Without the Fed guarantee, investors may have panicked and fled money funds after the $62.5 billion Reserve Primary Fund "broke the buck." Investors who thought money market funds were like cash, suddenly realized they don't own "cash," and instead own risky corporate debt, which in the case of Lehman, opened up Monday morning Sept. 15, 2008, at a bid-offer of 10 cents to 12 cents on the dollar. Suddenly "cash" represented by Lehman commercial paper just lost 90 cents on the dollar. The net asset value of Reserve Fund sank to $0.94 with its large losses on the Lehman portion of the portfolio.

This resulted in a long regulatory battle of how to shift the risk in money markets to investors rather than the government. Reform for the $3 trillion industry comes after a long battle between the SEC, the industry and federal banking regulators who sit on the Financial Stability Oversight Council.

The SEC came close to proposing new money market rules in August 2012 but, after a period of intense lobbying by the industry, three of the five commissioners under then-chairman Mary Schapiro said they would not support the rules as proposed. Schapiro recommended all money market funds have a floating value (vs. current $1 phantom value), or a capital buffer requirement. Rules were finally proposed in June 2013. The SEC received over 1200 letters, most of which urged the commission not to institute a floating net asset value.

The SEC (by a 3-2 vote) on 7/23/2014, finally approved new rules (869 pages!) after massive spending by lobbyists on each side of the issue. After years of debate, the SEC approved reforms for money market funds with a 2-year delay until October 2016.

The liquidity fee is designed to transfer the costs of liquidating fund securities from the shareholders who remain in the fund to those who leave the fund during periods when liquidity is scarce – such as in 2008. Redemption gates would delay your ability to redeem shares. These reforms require only prime institutional (vs. retail) money market funds to “float their NAV” (no longer maintain a stable price.)

Tax Burden Eased

The rules include an agreement with the Treasury Department and Internal Revenue Service to reduce the tax burden from investing in a fund whose share price can change. Investors will only have to account for gains and losses once, at the end of the year, instead of tracking prices at which they buy or sell throughout a year. The IRS also will waive its “wash-sale” rule, which could have penalized investors who frequently move cash in and out of money funds.

Avoiding the Restrictions

U.S. Government funds are allowed to continue pricing their shares at $1, as long as they invest 99.5% of total assets in cash, government securities or repurchase agreements backed by government debt or cash. Government money market funds are permitted, but not required, to impose up to 2% redemption fees and redemption suspensions/gates for up to 10 business days.

Bank money market deposit accounts are exempt from the new money market rules and may have FDIC insurance protection.

Decline in Prime Funds

With the new 2016 restrictions investments in prime funds has significantly declined. The April 20, 2018 Money Market Fund Statistics release by the SEC shows as of 3/31/2018 Prime funds declined to $663 billion from $1.5 trillion on 3/31/2016, while Government Funds increased from $1.3 trillion to $2.27 trillion. Tax exempt municipals declined from $242 billion on 3/31/2016 to $137 billion on 3/31/2018.

7-day yields were about 0.17% higher for Prime funds than government’s and there was a lower yield for municipal funds.

**This is an Example** of the research we do on various market segments and how seriously we take investment recommendations with ongoing monitoring of both individual portfolios and overall specific recommendations.

**Recommended Strategies**

1) Growth strategy to help maximize the potential market growth over the next few years.

2) "Participate yet Protect" strategies especially for longer-term investments to help minimize the effects of future market crisis.

3) Alternative opportunities without stock or bond market exposure for more cautious investing in what we believe are timely opportunities.

The three strategies can be combined within a portfolio, depending on your objectives.

For our growth strategy, we do not recommend index returns, ETFs or Target Funds, but managers that have historically consistently outperformed the “dumb” indexes with positive Alpha (outperformance vs. risk taken).

**Managing Risk in a World of Uncertainty**

**Invitation - Free Intro Meeting**

**Get a Second Opinion to any Current advisor**

**No cost or obligation sharing of our ideas**

**We offer a “Portfolio X-Ray” of**

**Your Current Holdings, with**

**Comparisons to our “Benchmarks” in Sectors.**

Investments in money market mutual funds are not guaranteed or insured by the FDIC or any other government agency. Although money market mutual funds seek to preserve a net asset value of $1.00 per share, there is no guarantee that this will occur; it is possible to lose money by investing in a money market mutual fund, including loss of principal. Please contact your Financial Professional for further details and additional information, including a prospectus, for any available money market mutual fund. Please read the prospectus carefully before investing.

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