

SECOND OPINION



## TOP OF THE HEAP: MONEY MARKET FUND RETURNS

**Q:** In a recent column you recommended a list of ETFs. I generally agree with the list, and most certainly agree with your criteria. But iShares Lehman TIP, the Treasury Inflation-Protected Securities ETF, has baffled me for some time. I was interested in it from the beginning, but felt I did not understand it, so I just watched it. Over many years, including dividends, it has barely budged, sometimes appearing to lose value. It appears to me that a money market account will easily beat TIP. Is there some reason to believe this will change in the future? - B.A., Houston

**A:** Over the last few years a money market fund investment has done much better than investing in most bond funds. Over the 12 months ending July 31, for instance, Morningstar data indicates that the average

taxable money market fund returned 4.77%. This return was higher than the average for ultra-short-term bond funds, short- and intermediate-term government bond funds, and inflation-protected bond funds.

Only long-term government bond funds did better, returning an average 5.75%. The same pattern held over the last three years (see table below).

RECENT BOND FUND PERFORMANCE		
This chart compares the trailing 12-month and three-year annualized returns on major categories of bond funds with the average taxable money market fund.		
Fund Category	12 MONTHS	3 YEARS
Taxable Money Market Funds	4.77 %	3.41 %
Ultra-Short-Term Bond Funds	4.36 %	3.37 %
Short-Term Government Funds	4.68 %	2.78 %
Intermediate-Term Govt. Funds	4.63 %	3.05 %
Long-Term Govt. Funds	5.75 %	4.80 %
Inflation-Protected Bond Funds	3.66 %	3.39 %
Vanguard Inf.-Protected	4.49 %	4.10 %
iShares Lehman TIPs ETF	4.47 %	4.08 %
Source: Morningstar, Data For Period Ending July 31, 2007		

Your impression of inflation-protected bond funds, however, is incorrect. While the group trailed other fund categories over the last 12 months, their return over the last three years was on par with money market funds and ultra-short-term funds. It was better than short- and intermediate-term government bond funds. Vanguard Inflation-Protected Securities fund, which is frequently mentioned in this column, did better than all but the long-term government bond category over the last three years.

Recently, TIPS were priced to yield about 2.40% plus the rate of inflation. Personally, I

love TIPS at 3% over inflation but think they are a reasonable investment down to 2% over inflation.

**Q:** What is your perspective on the Vanguard GNMA fund, with \$12.7 billion in assets and a high Morningstar rating? My IRA is invested in that fund. I was disappointed with a return of 5% or less. Can you suggest an alternative fund at Vanguard to transfer my IRA into with the same level of risk but higher return?- S.G., Dallas

**A:** You're a pretty demanding guy. I've favored Vanguard GNMA (ticker: VFII) for

many years because it provides a relatively high return at relatively low risk. If you check the latest Morningstar figures, it has ranked in the top 16%, 4%, 10%, 5% and 7% of all intermediate-term government bond funds over the last 12 months, three years, five years, 10 years, and 15 years, respectively (figures are to month end of July).

So, what's not to like?

If you want a higher return I suggest that you (1) invest in equities and (2) build a more diversified portfolio with multiple asset classes. Your level of risk, of course, will be higher.

## SECOND OPINION

Vanguard Wellesley (ticker: VWINX) is a conservative allocation fund with less than 40% in equities. Vanguard Wellington (ticker: VWELX) is about 60% equities invested in both foreign and domestic stocks. Wellington requires a minimum initial investment of

\$10,000, which is more than the usual \$3,000 minimum for Vanguard funds. Of the two, I favor Wellington.

(Questions about personal finance and investments may be sent by e-mail to

[scott@scottburns.com](mailto:scott@scottburns.com) or by fax to 505-424-0938. Check the Web site: [www.scottburns.com](http://www.scottburns.com). Questions of general interest will be answered in future columns.)

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