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LET'S TALK ABOUT...
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Liquidity

In times of storming financial scenarios, and although opportunities still exist, investors may decide not to take risks and “park” their assets awaiting better solutions. If equity markets are dominated by uncertainty and volatility, supposedly safe bonds are expensive and low yielding, commodities – and firstly gold among them – are at top levels, liquid placements may be a smart option. The concept of liquidity is simple: immediately available assets and, should they be placed, a prompt redemption in case of need, thanks to wide trading schemes and absence of “problems” of any sort. It looks easy in theory, but the actual environment is some more complex. In Switzerland cash held in free accounts carries no interests, whilst it generates expenses. If other currencies are selected because revaluations are expected against our reference one, a bet is made, often a strong one, which is contrary to the spirit of low risk stances. The same is valid for “fiduciary deposits” when they are placed in more or less exotic high-yielding moneys. But the range of cash investments is indeed wider and may also take to decent returns: among them the CD’s, certificates of deposit and the money market funds. CD’s pay a fixed rate of interest until their expiration, which is usually short-term, 3 or 6 months. They are usually issued by banks and yield a bit more than the correspondent saving accounts. Some of them may have floating rates and, like bonds, may carry call clauses, in that may be redeemed by the issuer before expiration. Similar instruments issued by companies are “commercial papers”, in the form of discounted securities or with interests paid at expiration: they may be interesting but of course the issuers must be carefully assessed and selected. Such instruments, together with short-term sovereign bills and other similar vehicles are also components of the money market funds’ portfolios, which offer the benefits of diversification, but may also take some risks with them. *- GLT*