

How Do I Get Started In Short Term Investing?

For the average person, the thought of short term investing doesn't appear to be a viable option. Most people think first of the typical savings account, or maybe even a 401K, but those are not the only options. Savings accounts no longer have an attractive interest rate, and a 401K is intended for retirement, and as such, can only be withdrawn under certain extenuating circumstances that are defined by government regulations. Besides, 401K is not considered a short-term investment, and that is what is being identified here.

Anyone who has some money to save should consider some of the short-term investment options instead of a typical low-interest savings account. Perhaps you are familiar with some of these such as CD's, T-bills and money market funds, but there are other short-term investments as well such as zero coupon bonds from the U.S. Treasury, short-intermediate bond funds, and floating rate funds.

The major difference between these investments and the typical savings account is, with the exception of money market funds, there is a specified period of time required. If you cash in before the maturity date, there is a steep penalty which varies according to the lending institution. It's important to consider the purpose for which you are saving before deciding on the type of investment you want to make. The reason for that is that your intended purpose is going to tell you what kind of investment you want to make. For example, if you want to get a high interest rate, but your intention is to use it to buy a house or new car in a year or two, you may want to consider a money market account. The interest rates vary depending on the minimum balance requirement, but they are customarily available in denominations of \$1,000 - \$10,000. Additionally, up to three withdrawals per month are allowed, so this is attractive for the short-term investment.

The highest interest earned is going to be on the higher risk investments such as floating rate funds, which are funds that are used to buy loans from corporations. The problem with this is that environmental issues such as natural disasters can affect the interest rate, and therefore, the investor is going to earn less for his money than he had originally anticipated.

Various types of bond funds have existed for many years, and what the rate of return will be depends on the risk. Many of these bonds are generated for a set purpose, and the financial stability of the company offering them is going to determine the rate of return. The lower the credit rating, the higher the risk, and therefore, the higher the interest rate. Additionally, there are municipal bonds that are generated by cities, townships, and states for the purpose of renovations or other municipal needs. The bonds have a future maturity date that usually ranges anywhere from one year to seven years, sometimes more. This is still considered a short-term investment, however, but like other investments that have a maturity date, you will take a loss if you cash it out before its maturity date. That doesn't mean that you can't sell it to another investor at a price higher than what you paid; it simply means you can't cash it out in the market without taking a cut in your profit.

For the short-term investor, mutual funds also make a nice investment and are safer than other types of investments. What happens with mutual funds is that the investor has the options to move the funds around within his portfolio based on the activity of the funds. If you have a broker, he will usually do this for you, watching out for your interests while moving the funds within the group.

What you choose to do must be based on your needs, so don't make any decision until you have weighed your purpose for making the investment. Remember, the higher the investment, and the longer the term of investment, the higher your interest rate.

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