

MONEY MARKET FUNDS NOT THAT SAFE AFTER ALL

If you are an investor in a money market unit trust, it is very likely that you are not willing to take risk with your money. You are probably looking for a safe place to earn interest on your capital. If you were invested in a money market fund and you have recently lost money because your “safe” fund invested in African Bank (ABIL), then I guess you have realised your “safe” investment is not really that safe after all.

SOME PLAYERS IN THE UNIT TRUST INDUSTRY LET US DOWN

I was really disappointed by the way that money market fund managers (who lost money because of African Bank) have handled the debacle. Their clients have lost money in supposedly safe investments and these institutions have made no attempt to share the losses with their clients. I don't know of one company that did this and I cannot understand why. It makes good business sense and would have earned loyalty. Instead I have received many calls and emails from people telling me that they are taking their money away from their bank because of the losses in their money market fund. Normally I advise against knee-jerk reactions but in this instance I am 100% in agreement. Another consequence of these money market losses is that it will encourage more investors to try guaranteed products offered by unscrupulous operators who must view this as a marketing opportunity of a lifetime.

POTENTIAL RISKS HIDDEN AWAY IN THE DISCLAIMER

I have been reading the fact sheets that these money market fund managers use to explain their funds to investors. Very few money market fact sheets actually explain in a clear way that you can lose money. In fact I could only find one fund fact sheet that clearly tells you (near the top of the first page) that you could lose money in their money market fund. This is Allan Gray's money market fund and it did not lose money because of Abil. The rest of the companies' fact sheets provide vague explanations or they hide the commentary about losses in the fine print of their disclaimers at the bottom of the last page of the fact sheet. The worst culprits are some of the funds owned by banks, the same ones who lost money because of Abil.

Here is my suggestion to all product providers: when you are offering a low risk investment, please state clearly in the risk rating that there is still the potential to lose money, do it near the top of the first page of your marketing material.

DO WE BLAME GREED FOR THIS?

Some money market funds are huge and generate income of more than R200 million per year per fund for the fund managers. Even if the fund employs five fund managers at R2m per year per manager, the fund will still be making massive profits for the company concerned (way more than R100m per year). If these same fund management companies were really interested in their clients and took their responsibilities as stewards of their clients' money more seriously, they would have reacted very differently to this debacle. It is clear that they are happy to earn these enormous sums of money from their clients but when they make a real mistake, they simply say something like, “it is not the responsibility of the bank to make up for these losses”. It seems to me that they view this as a normal market event and investors should just suck it up. If the fact sheets had been more transparent about the losses – I might have agreed with them BUT they weren't.

HOW SHOULD THEY HAVE DEALT WITH THIS?

If I were managing a low risk fund like a money market unit trust and I lost money for my investors, I would not charge a single cent of management fees until my clients had recovered their losses. It might not always be possible to inject capital into the fund (especially if the fund is large) but you can certainly stop or reduce your fee until you have made up for your mistake.

NOW WHAT?

I agree with Keith McLachlan whose article was published in Moneyweb that we cannot blame equity fund managers who were being paid to take risks if they lost money in African Bank. Don't pay someone to take risks and then berate them when the risk does not work out. However, you can blame the fund manager who loses money for you when he was being paid NOT to take risk with your money. The money market fund managers who took the decisions leading to losses because of ABIL and their bosses who are not willing to share the financial pain with their clients should all be looking for new jobs. For the rest of us, invest your money with funds that are willing to show you the real risks in a clear and readable manner. If a low risk fund only tells you about potential losses in the fine print of the disclaimer, choose another fund.