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## Credit Crunch Squeezes "Safe" Investments

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Where can panicked investors turn when their equity funds are in free fall and uncertainty seems to be the order of the day?

Well, scores of investors have taken refuge in short-term bond funds and money market funds in recent months, as anxiety over the market's direction has taken hold. Inflows into lower-risk money market funds have risen sharply, with assets reaching a record \$3.51 trillion. But the notion that funds like these are immune from market losses and liquidity concerns is being put to the test.

### A double whammy

One such ultra-short bond fund, the **Schwab YieldPlus Fund**, has found itself caught in a death spiral in recent weeks. The fund is designed to act like a money market fund, but it seeks to enhance returns by investing in bonds with a slightly longer duration and a higher yield. Unfortunately, the credit crunch that has roiled financial markets has also burned this **Charles Schwab** (Nasdaq: [SCHW](#)) fund. As the value of the fund's assets has dropped, investors have begun pulling out money, afraid of further losses. The fund's asset base has fallen from \$13 billion last May to just \$2.5 billion at the end of March. So far this year, the fund has fallen more than 15%.

And this isn't an isolated case. **Legg Mason** (NYSE: [LM](#)) recently announced that it's taking a \$195 million charge to bail out one of its money market funds. Legg Mason is just one of a growing list of asset managers that have been forced to step in and aid faltering money market funds in recent months, including **Credit Suisse** (NYSE: [CS](#)), **Janus Capital** (NYSE: [JNS](#)), and **Wells Fargo** (NYSE: [WFC](#)).

Investors can take away two important lessons from these events. First, even "safe" investments can lose money, and in certain environments, they can lose a *lot* of money. Even money market funds can run into problems -- we've seen ample evidence of that lately. Don't assume that a low-risk investment means *no* risk. There is no free lunch in investing, and you never get something for nothing.

Second, this is unlikely to be the last of the bailouts we will see in this sector. The credit squeeze will claim many more victims before it's all over. So don't be surprised to hear about more managers having to shore up their funds. We're not out of the woods yet, so brace yourself for more charges, writedowns, and downside surprises in the financial sector -- even in so-called "safe" investments.

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