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Like investors, funds add cash in uneven market

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NEW YORK - With the thuds of falling stock prices emanating from Wall Street in recent months it's understandable that some investors might want to bolt and bury themselves in cash. They might find their mutual funds are doing a bit of that as well.

Although a weak dollar is partly to blame for the rising costs of gas and other commodities, cash is still a comforting asset to many investors because of the market's upheaval. And some funds, having sold off parts of their portfolios, are holding more cash these days as they look for bargains and signs about where the market might be headed.

And others have enough new money coming in that they've decided not to invest it right away.

"We're not going to be changing our philosophy just because of the times we are in," said Russell Croft of Croft Value Fund. "That being said, we've actually been lucky enough to have some decent inflows this year, which has increased our cash. We're taking our time to put that money to work. It's not like we're hoarding cash."

The fund's cash position stands at about 10 percent, which Croft said is a little higher than normal.

"We're trying to get better entry points," he said.

The uptick in cash at some funds comes in a year in which the Standard & Poor's 500 index — the stock market benchmark used by most professionals — is down about 14 percent but well off its lows. While some funds are holding on to cash as they look for places to invest, others hold on to more during a downturn as this is money that can't decline.

Many funds aren't holding excess cash now — but aren't ruling out putting more into reserve. Less than two months ago, the Jacob Internet Fund's cash position was near the high end of its usual range and now it's at the bottom end.

"There's a lot of fear in the market right now. It's one of the reasons why our cash position is quite low," said Ryan Jacob, the fund's portfolio manager. "We have our eyes out for certain names when they reach certain levels."

"We generally speaking don't carry a large cash position but there are times over the last 12 months where we've let our cash position get to higher-than-normal levels," Jacob said. He said it ranges from zero to 20 percent — higher than many funds.

But Jacob contends that cash shouldn't be counted on as a major tool to blunt losses.

"We don't want our returns to be a result of our ability to market-time. We try to take a prudent course but, you know, ultimately the fund will do well or poorly based on our stock picks."

And of course shifting too much to cash could mean that a stock fund, for example, could miss out on a market rebound — although big investors can access their cash quickly, it may not be quick enough when the market is soaring. Often, the biggest gains in a recovery occur in one or two sessions, making it difficult for those on the sidelines to catch up.

For investors pessimistic about the dollar — which has been on a steep decline for months — the prospect of adding to dollar reserves isn't enticing.

Axel Merk, who runs the Merk Hard Currency Fund and the Merk Asian Currency Fund, has long been bearish on the prospects for the dollar. Only 1.4 percent of the assets in his currency funds are in the greenback.

Regardless of the outlook for the dollar, however, he contends that investors and the funds themselves are best served when portfolio managers stick to the investing plan outlined in a fund's prospectus.

"Every fund manager has to decide what is the mandate of their fund. If you're an equity mutual fund do investors pay you to hold cash?"

Mutual fund prospectuses generally make room for managers to maneuver into defensive areas such as cash. Still, it is the job of investors to make sure the fund's investment philosophy is something with which they agree.

"Investors should read the full prospectus to understand what the fund does and they should call the fund company when they have questions on this," Merk said. "The important thing in this environment is that investors get what they expect."

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