FIXED-INCOME INVESTING

How to Find Decent Yields on Savings

Big banks are still paying virtually nothing on savings despite the Fed's rate rise of a cumulative 2 percentage points. Here are some simple, safe solutions.

BY ERIC UHLFELDER

IF YOU HAVEN'T checked in a while, yields on savings accounts at the big money-center banks have barely budged since the financial crisis—still generally below 0.2%.

But many investors may wrongly assume there are no better yields to be had in safe and liquid fixed-income products. There are.

Even before last week's interest-rate spike, "it's not hard to find quality, liquid alternatives that are paying 1.6% to 1.8%," says Ron Weiner, a partner and managing director of RDM Financial Group (at HighTower Advisors), a financial advisory firm with $880 million of assets under management. "Further," he adds, "the more one can earn with cash, the less risk an investor then must take to achieve, say, a targeted return of 6% to 8% on one's entire portfolio."

The problem is that with many customers at large, brand-name institutions bundling their banking services—including direct deposits from their jobs that can build up savings—there is a habit of accepting the status quo. But this can be costly now that interest rates are finally rising off their historic lows.

Mr. Weiner says that even many high-net-worth individuals, who tend to build up cash positions, aren't aware of substantially higher cash yields that are now available.

There are three ways to realize higher yields on liquid accounts that one should always maintain to pay bills, meet unexpected expenses and store profits swept out of the market. One is to set up savings accounts at smaller local banks; a second is funding online savings accounts at solid financial institutions; and the third is allocating cash into money-market mutual funds.

According to Ari Socolow, who owns and manages the website BestCashCow.com—a clearinghouse of what banks across the country are paying on savings—smaller, local institutions and big-name online savings accounts have tended to pass on rising rates to customers to help attract assets.

In the New York metropolitan area, Apple Bank for Savings is paying a tidy 1.6% on accounts holding $2,500 or more. And Mr. Socolow says there are even better rates available in large cities across the country. Investors are insured by the Federal Deposit Insurance Corp. up to $250,000.

Short-term CDs are also a source of quality yields. But be mindful of the difference between bank-issued versus brokerage-issued CDs. At large national banks, CDs frequently pay only modest yields. Currently, a three-month CD offered by **JPMorgan Chase** & Co. is yielding just 0.02%. But brokerages like **Morgan Stanley** also offer a three-month CD paying 2%, distributed through large banks like Chase.

Online savings accounts have been around for years, having received a boost in the aftermath of the financial crisis when financial institutions petitioned for bank status to help rebuild their capital base. Big familiar names include American Express National Bank, Marcus (the online savings account of **Goldman Sachs**) and Barclays Bank, all of which are paying 1.9%.

An old alternative

Before the financial crisis, money-market mutual funds typically paid more than savings accounts. But with the adoption of stricter rules on money markets, including repricing of shares below their par value (typically $1) if the prices of underlying investments decline, such money-markets products have become less visible. But they still exist.

According to Greg McBride, chief financial analyst at Bankrate.com, which tracks yields of various financial products, banks' own money markets at large institutions basically yield the same as their savings yields. Still, for investors who want to maintain assets in existing brokerage accounts, mutual-fund versions of money markets yield much more than their bank versions and offer one-day liquidity. Investors aren't FDIC-insured, but Mr. McBride says investing in such products offered by well-established financial-management firms is fairly secure, because these institutions "will move heaven and earth to preserve the $1 NAV on their retail money funds, since they would suffer significant reputational risk and loss of assets to competitors if they ever 'broke the buck.' "

Morningstar scanned its database of more than 1,000 money-market mutual funds for The Wall Street Journal. The Journal then sorted this list by those managing at least $100 million, having been in business for at least five years, and requiring a minimum investment of no more than $3,000.

Based on trailing seven-day yield (as of the end of August), the top 10 money markets were paying between 1.85% and 2.11%. These are offerings of well-established asset managers, including Vanguard, Invesco, Schwab and Alliance Bernstein.

A better mind-set

While some customers may balk at making an effort to earn an extra percentage point or two, Mr. Socolow thinks there is more at stake. He believes this is a matter of improving one's mind-set, focused on all the ways capital leaks and unnecessarily underperforms throughout one's portfolio.

"Plugging these holes can collectively add up over the long run without increasing risk," Mr. Socolow says.

And you don't need to give up an account and services of a large bank you may have been at for years. It's easy to set up wiring instructions to shuttle cash back and forth between banks and brokerages to get the best of all worlds.

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Where the Yields Are

Select online savings products with highest yields*

	Annual Percentage Yield (APY)
CIBC Bank USA	2.10%
HSBC Direct	2.01%
VirtualBank (Iberiabank)	2.01%
Marcus by Goldman Sachs	1.90%
Barclays Bank Delaware	1.90%
American Express National Bank	1.90%

Select local savings banks with highest yields†

	APY	Where accounts are available
Banesco USA	2.02%	Florida, PR
CNB Bank of Pennsylvania	2.02%	NY state
Northfield Bank	2.00%	NJ, NY
Cross River Bank	1.92%	NJ
Live Oak Bank	1.80%	NC

*Criteria: Online banks with low minimum investments, assets of at least $25 billion and which have been in business for at least 15 years.
†Criteria: Local banks with low minimum deposits, assets of at least $1 billion, haven't changed bank format since before 2000 and their public filings suggest secure capitalization and a low percent of nonperforming assets.
Source: BestCashCow.com
THE WALL STREET JOURNAL.

As Rates Rise, So Do These Stocks

BY DEREK HORSTMEYER

FOR INVESTORS who want to protect their portfolio against rising interest rates, the conventional wisdom says it's best to shift into the stocks of safe, dividend-paying, large companies.

But the data suggest that is likely the wrong strategy.

Examining the five periods over the past 30 years when the Federal Reserve raised rates, in fact, shows that large, dividend-paying, safe companies may be the ones you want to *avoid*. And with the market participants betting that the Fed will incrementally raise interest rates another percentage point over the next year, this advice could be especially timely.

When bulls prevail

The Fed tends to raise rates at times when it thinks the economy shows signs of overheating. But while rates are rising and the economy is still growing at a healthy rate, it isn't uncommon for a general bullishness about stocks to prevail. Over the past five rate-increase cycles, in fact, the S&P 500 averaged 13.2% a year, well above its historical average of 9.6%.

This excess performance, meanwhile, is most concentrated in the types of companies one would expect to do well in a booming economy—smaller businesses and those in cyclical industries. In fact, a look at the performance of all mutual funds over the past 30 years, partitioned by the focus of the fund, shows that if you were to hold an average small-cap mutual fund as opposed to a large-cap fund, you would have gained an extra 3.62 percentage points a year in returns over the five rate-increase cycles (15.13% versus 11.51%).

Why be 'defensive'?

Similarly, mutual funds focused on growth stocks and cyclical industries held an edge of 4.65 percentage points a year over value and defensive stocks during the rate-increase cycles. And finally, mutual funds that focus on dividend-paying companies underperformed mutual funds focusing on nonpayers by 5.38 percentage points over the past five rate-increase cycles.

It should be noted that funds focused on small-caps, growth stocks and nonpayers of dividends did come with slightly elevated levels of volatility over those same rate-increase cycles, compared with their safer counterparts. But in finance, the bigger rewards do tend to come with the bigger risks.

With the Fed showing no signs of letting up on rate increases for the next year, it may be the riskier types of funds, rather than those that invest in safe, dividend-paying and large-cap stocks, that deliver the bigger rewards.

Dr. Horstmeyer, a finance professor at George Mason University's Business School in Fairfax, Va., can be reached at reports@wsj.com.

Rate Reactions

Average annual return by mutual-fund focus over the five rate-increase periods in the past 30 years

Conventional investments / Nonconventional investments

Large-Cap	11.51%
Small-Cap	15.13%
Value and Defensive	10.12%
Growth and Cyclical Industries	14.77%
Dividend-Focused	9.55%
Nondividend	14.93%

*March 1988-March 1989; December 1993-April 1995; June 1999-July 2000; December 2003-July 2007; December 2015-present
Source: Morningstar
THE WALL STREET JOURNAL.

SPOTLIGHT | IQ CHAIKIN U.S. SMALL CAP ETF

SMALL-CAP FUND LOOKS FOR MORE

As tariffs roil global markets, small-capitalization domestic stocks have been on a roll.

And that roll could continue, says Salvatore Bruno, chief investment officer at IndexIQ. Mr. Bruno's firm runs **IQ Chaikin U.S. Small Cap** ETF (CSML), a $502.8 million exchange-traded fund that was launched in May 2017 and, as its name implies, focuses on small-cap stocks that do most, if not all, of their business in the U.S. The fund has returns of 1.27% so far this year and 6% over the past 12 months.

Small caps tend to perform well during periods of growth, like the U.S. economy is currently experiencing. Moreover, when companies do business primarily in the domestic market, like those in CSML, they tend not to be affected by trade disputes and currency movements.

In an additional tailwind, the Trump administration has rolled back some regulations on business, Mr. Bruno says. This cuts a company's fixed costs and makes a noticeable difference in the bottom lines of smaller firms. The reduction in the corporate tax rate has also helped companies, Mr. Bruno adds.

CSML tracks the Nasdaq Chaikin Power US Small Cap Index, which provides exposure to stocks based on four major factors: value, growth, technical and sentiment. The fund's return so far this year is small compared with about 14.5% for the S&P SmallCap 600 Index. Mr. Bruno attributes this to the relatively poor performance of value companies. However, he says he expects this to turn around "because of our belief that cheaper stocks with good growth characteristics can deliver positive excess returns over the long term."

There are risks with investing in small-caps that investors should bear in mind, says Kiril Nikolaev, an analyst at ETFdb.com. Micro and small-cap equities are considered higher risk than well-established large-cap and blue-chip companies, "because they are less stable in their profitability and may experience more uncertainty, competition and outside pressure."

—Gerrard Cowan

Monitoring Money-Market Funds

Performance figures for these consumer-oriented funds are estimated annualized yields, which include earnings from the funds' investments and the effects of compounding. Funds open only to institutions, special-purpose and tax-exempt funds are excluded from these tables.

Largest Funds

Fund Name	Assets ($millions)	Performance (%) 3rd-qtr	12-mos	Compound 7-day yield (%)
Fidelity Govt Cash Reserves	132,527.7	1.63	**1.24**	1.69
Vanguard Federal MMF	102,486.5	1.90	**1.50**	2.00
Vanguard Prime MMF/Investor	93,694.2	2.08	**1.68**	2.14
Fidelity Government MMF	90,574.9	1.58	**1.19**	1.64
Schwab Value Adv MF/Ultra	24,884.6	2.04	**1.66**	2.06
Fidelity Inv Money Market/Instit	23,336.1	2.13	**1.78**	2.15
Vanguard Treasury MMF	19,739.2	1.92	**1.51**	2.02
Edward Jones MMF/Inv Class	18,689.1	1.29	**0.89**	1.34
Northern US Govt MMF	16,394.5	1.64	**1.25**	1.70
Fidelity Treasury MMF	10,982.8	1.58	**1.19**	1.64

Highest 12-Month Yield

Fund Name	Assets ($millions)	Performance (%) 3rd-qtr	12-mos	Compound 7-day yield (%)
Fidelity Inv Money Market/Instit	23,336.1	2.13	**1.78**	2.15
Invesco Premier Portfolio/Inst	1,040.3	2.05	**1.69**	2.08
JPMorgan Liquid Assets MMF/Capital	272.0	2.05	**1.69**	2.10
Vanguard Prime MMF/Investor	93,694.2	2.08	**1.68**	2.14
Federated Prime Cash Oblig/Wealth	7,352.3	2.03	**1.67**	2.06
First Amer Retail Prime Obligs/Cl Z	299.7	2.04	**1.66**	2.07
Schwab Value Adv MF/Ultra	24,884.6	2.04	**1.66**	2.06
BlackRock MMP/Instit Cl	308.0	1.99	**1.64**	2.01
Dreyfus Prime MMF/Cl A	150.1	1.99	**1.63**	2.02
BMO Prime MMF/Premier	242.5	1.95	**1.58**	2.00

Highest Seven-Day Yield

Fund Name	Assets ($millions)	Performance (%) 3rd-qtr	12-mos	Compound 7-day yield (%)
Fidelity Inv Money Market/Instit	23,336.1	2.13	1.78	**2.15**
Vanguard Prime MMF/Investor	93,694.2	2.08	1.68	**2.14**
JPMorgan Liquid Assets MMF/Capital	272.0	2.05	1.69	**2.10**
Invesco Premier Portfolio/Inst	1,040.3	2.05	1.69	**2.08**
First Amer Retail Prime Obligs/Cl Z	299.7	2.04	1.66	**2.07**
Federated Prime Cash Oblig/Wealth	7,352.3	2.03	1.67	**2.06**
Schwab Value Adv MF/Ultra	24,884.6	2.04	1.66	**2.06**
Dreyfus Prime MMF/Cl A	150.1	1.99	1.63	**2.02**
Vanguard Treasury MMF	19,739.2	1.92	1.51	**2.02**
BlackRock MMP/Instit Cl	308.0	1.99	1.64	**2.01**

Source: Money Fund Report (iMoneyNet.com)

Lowest 12-Month Yield*

Fund Name	Assets ($millions)	Performance (%) 3rd-qtr	12-mos	Compound 7-day yield (%)
Transamerica Govt MMF/Cl A	170.6	1.14	**0.29**	1.82
Ready Assets USA Govt MF	29.2	0.77	**0.39**	0.72
Federated Govt Oblig Fund/Cash Ser	191.8	0.97	**0.55**	1.04
Federated Tr for UST Oblig/Cash Ser	414.1	0.96	**0.56**	1.00
Federated Govt Reserves Fund/Cl P	8,359.6	0.96	**0.57**	1.02
RBC US Govt MMF/Investor	1,091.9	0.97	**0.59**	1.03
BlackRock Liquidity:Treas Tr Select	33.3	0.98	**0.59**	1.09
BlackRock Liquidity:T-Fund Select	24.6	0.99	**0.60**	1.06
BlackRock Liquidity:FedFund Select	208.5	1.00	**0.61**	1.06
AZL Government MMF	441.1	1.13	**0.70**	1.19
Average Yields (all retail taxable funds)		1.43%	1.04%	

* - Ranked by assets.

Mutual-Fund Yardsticks: How Fund Categories Stack Up

Includes mutual funds and ETFs for periods ended Sept. 28. All data are final. Data provided by LIPPER

Investment objective	Perfomance (%) September	3rd-qtr	1-yr	5-yr*
Diversified stock & stock/bond funds				
Large-Cap Core	0.5	**7.0**	15.7	12.1
Large-Cap Growth	0.5	**7.6**	25.0	15.0
Large-Cap Value	0.2	**5.9**	10.6	10.1
Midcap Core	−0.8	**3.9**	10.9	9.4
Midcap Growth	−0.6	**6.9**	21.9	12.1
Midcap Value	−1.1	**2.5**	7.8	9.0
Small-Cap Core	−2.3	**3.0**	12.0	9.8
Small-Cap Growth	−1.6	**7.5**	27.3	11.9
Small-Cap Value	−2.6	**1.1**	8.6	8.2
Multicap Core	−0.1	**5.7**	14.1	11.1
Multicap Growth	0.2	**7.4**	22.9	13.2
Multicap Value	−0.3	**4.5**	9.5	9.6
Equity Income	0.1	**5.3**	10.6	9.7
S&P 500 Funds	0.5	**7.6**	17.4	13.4
Specialty Divers. Equity	0.1	**2.3**	5.8	−2.9
Balanced	−0.04	**3.0**	6.5	6.5
Stock/Bond Blend	−0.1	**2.3**	5.4	5.8
Avg. U.S. Stock Fund†	−0.5	**5.2**	14.5	10.3
Sector stock funds				
Science & Technology	−0.7	**5.9**	21.5	15.9
Telecommunication	1.3	**5.7**	5.5	6.9
Health/Biotechnology	0.7	**10.0**	19.8	14.9
Utility	−0.3	**2.5**	4.3	8.4
Natural Resources	1.4	**0.4**	10.5	−3.0
Sector	−2.2	**0.7**	4.1	7.1
Real Estate	−2.3	**0.6**	3.3	8.4

Investment objective	Perfomance (%) September	3rd-qtr	1-yr	5-yr*
World stock funds				
Global	0.02	**3.3**	8.7	8.2
International (ex-U.S.)	0.1	**0.3**	1.5	4.3
European Region	−0.4	**0.1**	−0.5	4.2
Emerging Markets	−1.0	**−2.7**	−4.0	2.5
Latin American	2.5	**1.5**	−12.8	−3.6
Pacific Region	−0.3	**−2.6**	1.8	6.7
Gold Oriented	−0.7	**−15.5**	−21.1	−5.0
Global Equity Income	0.3	**2.9**	4.5	5.9
International Equity Income	0.4	**0.7**	−0.8	2.5
Taxable-bond funds				
Short-Term	0.02	**0.5**	0.6	1.1
Long-Term	−0.4	**0.7**	−1.3	3.2
Intermediate Bond	−0.5	**0.1**	−1.2	2.0
Intermediate U.S.	−0.7	**−0.5**	0.1	0.8
Short-Term U.S.	−0.5	**0.1**	−1.2	2.0
Long-Term U.S.	−1.2	**−1.0**	−2.5	1.6
General U.S. Taxable	−0.3	**0.5**	−0.3	3.1
High-Yield Taxable	0.5	**2.1**	2.3	4.3
Mortgage	−0.5	**−0.1**	−0.9	1.7
World Bond	0.7	**0.1**	−2.2	1.4
Avg. Taxable-Bond Fund**	−0.1	**0.6**	0.2	2.2
Municipal-bond funds				
Short-Term Muni	−0.2	**0.2**	−0.1	0.5
Intermediate Muni	−0.5	**−0.2**	−0.2	2.4
General & Insured Muni	−0.6	**−0.2**	0.5	3.7
High-Yield Muni	−0.5	**0.2**	2.8	5.8

Stock & Bond Benchmark Indexes All total return unless noted

Investment objective	Perfomance (%) September	3rd-qtr	1-yr	5-yr*
Large-cap stocks				
DJIA	2.0	**9.6**	20.8	14.6
S&P 500	0.6	**7.7**	17.9	13.9
Midcap stocks				
S&P MidCap 400	−1.1	**3.9**	14.2	11.9
Small-cap stocks				
Russell 2000	−2.4	**3.6**	15.2	11.1
Broad stock market				
DJ U.S. Total Stock Market	0.2	**7.1**	17.6	13.4
Russell 3000	0.2	**7.1**	17.6	13.5

Investment objective	Perfomance (%) September	3rd-qtr	1-yr	5-yr*
Stock indexes				
DJ U.S. TSM Growth	0.2	**8.0**	24.3	15.6
DJ U.S. TSM Value	−0.1	**6.0**	10.8	11.3
Taxable bonds				
Barclays Agg. Bond	−0.6	**0.02**	−1.2	2.2
Municipal bonds				
Barclays Muni. Bond	−0.6	**−0.2**	0.3	3.5
International stocks				
MSCI EAFE†† (price return)	0.6	**0.8**	−0.01	1.7
Dow Jones World (ex. U.S.)	0.2	**0.4**	2.0	4.6

*Annualized †Diversified funds only **Excludes money-market funds ††Europe, Australia, Far East