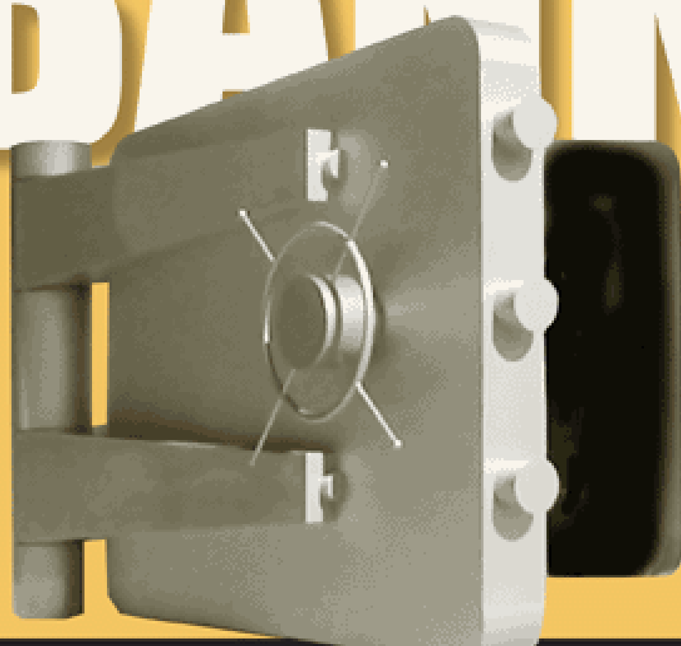
Better Than MONEY in the BANK



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Our mission is to empower investors and consumers with unbiased information and advice to protect their savings, build their wealth, and prosper in good times or bad.

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Better Than Money In The Bank

America's banks pay you an average of only about 0.83% on personal checking accounts.[1] Meanwhile, on business checking accounts, banks pay you no interest whatsoever.

And by the time you add up all the fees that banks charge you for services such as …

- ✓ Regular checking …
- ✓ Low balances …
- ✓ Writing too many checks …
- ✓ ATM withdrawals …
- ✓ Deposits, and …
- ✓ Bounced checks …

… you may actually be *paying* your bank for the use of your own money.

You do get better interest with CDs. But there, your liquidity — the access to your funds — is severely restricted by early-withdrawal penalties.

Federal law requires a minimum penalty of seven days interest for early withdrawal on any account classified as a time deposit, which includes CDs. And since the law doesn't set a maximum penalty, banks are free to charge more — and they usually do.

So it's not unusual to see penalties like these on CDs:

CD's term	You lose
30 days	All your interest
Two to 18 months	Three months interest
Two years or more	Six months interest

[1] Bankrate.com, March 2, 2009

My solution is a plan I call "Treasury-Only Savings and Checking." I think it gives you the very best combination of safety, yield, liquidity, and convenience available in the world today.

I will show you exactly how to go about setting it up — both for your personal and business accounts. And I will tell you about the best vehicles to use. But first, let's review …

The Advantages (and Disadvantages) of Treasury-Only Savings and Checking

The basic vehicle for Treasury-Only Savings and Checking is very simple: Instead of using banks, you use primarily a special kind of money market mutual fund — a Treasury-only money fund.

A Treasury-only money fund invests all of your money in short-term U.S. Treasury securities (plus other securities that are 100% backed by U.S. Treasuries). The fund uses a bank, but strictly as custodian for the securities, and those accounts are completely segregated from the bank's deposits or assets.

The Treasury-only money fund also provides you with check-writing privileges so that you can use the money fund as your personal or business checking account. There are many advantages:

Advantage #1. Higher Yields. Treasury-only money funds have generally yielded substantially more than the yield offered on the average personal checking account in the U.S.

The yield differences fluctuate and may be different when you read this. However, let's assume an average balance of $5,000. And let's assume you boost your average yield from 2% to 4%. Your interest income, when compounded, could actually be more than TWO times greater.

Assuming no change in these rates, over a 10-year period, you would boost your interest income from $1,095 to $2,401.

In your business checking account, if you assume an average balance of $50,000, your interest income over 10 years would be $24,012. That's a total 10-year return of nearly 48% on your money that you might not have earned otherwise.

Plus, in a business of fairly average activity, you would also be able to take better advantage of the "float" — the funds remaining in your account while checks written against them have not yet cleared.

With this float, your average daily balances can increase by 50% or more. Assuming an average daily bank balance of $75,000, your total yield on your $50,000 book balance jumps to $61,018 over 10 years. So we're not talking about petty change. We're talking about a very significant, untapped source of revenues.

Advantage #2. Low Fees. When a bank quotes you yields — on any kind of account — it always quotes you the yields *before* deducting all the service fees I cited at the outset. And with bank charges and fees currently at their highest level in modern history, it's almost impossible for most bank customers to collect anything near the advertised yield.

In contrast, when a money fund quotes you its yield, it is invariably *after* deducting its fees and expenses. Of course, the past or current yield is no guarantee of future results. But the yield quoted is the net yield that investors in the fund are actually earning.

How much of a difference can this make? In most cases, a very large one. Indeed, we figure that, after deducting the myriad bank fees, most Americans today are getting a net yield of close to zero on their accounts, while many wind up losing money.

Two examples of outrageous fees:

1. It rarely costs banks more than $2 to process a bounced check. But most charge you close to $30.

2. It costs them nothing to receive a wire transfer from another bank. Yet most banks charge $10 or more.

Many banks charge you if you make too many transactions … and they charge you again if you have too few transactions. They get you on the way in when you make deposits — and on the way out, when you make withdrawals.

They often charge a hefty fee if you use the automated teller machines; and with some accounts, many will charge you yet another fee if you use live tellers.

In contrast, most Treasury-only money funds charge you nothing or very little for each of these situations.

Advantage #3. One Account for Both Checking and Savings. At banks, most customers divide their money between (a) a checking account, where they give up most of their yield, and (b) a savings account or CD, where they give up immediate access and liquidity. No matter what, it's almost impossible to get both optimal liquidity and solid yield in the same bank account.

In contrast, Treasury-only money funds let you keep nearly all of your cash assets — whether for savings or for checking — in one single account. This means that whether you're investing $1,000 or $1 million …

- You have complete access to all your funds at all times.

- You can withdraw the entire amount, with no penalty whatsoever. Just write a check or request a wire transfer, and it's done.
- Your money consistently earns competitive, current market yields.
- You never have to worry about leaving too much in your checking account at lower yields. The full amount is available for checking at all times, earning full interest.
- You continue earning interest on your money up until the moment your check clears. The longer it takes for your payees to cash their checks, the more interest you earn.

In short, you get maximum liquidity and maximum yield on your entire balance. Plus, there's no more shuttling back and forth between checking, passbook savings, money market accounts, CDs, and other complex combinations.

Instead, you'll be able to have one large account that meets nearly all your needs — checking, savings, and investment. (You may still need one more small account that I'll tell you about in a moment.)

Advantage #4. No Limit to Your Account Size. When you use banks for your savings or checking, you have to go through a series of contortions to keep your money safe from failure:

- In each CD, you have to make sure your initial investment in each CD is actually under the $100,000 limit. Otherwise, the accumulation of accrued interest could put your balance over the limit, and that portion would not be covered by the FDIC.
- You have to spread your CDs among various accounts. This means you would have to keep track of several accounts at the same time.
- With large checking accounts, you would have to call your bank almost daily to make sure it's not over the $100,000 FDIC limit.

  Reason: If there are several large checks outstanding, your bank balance could be over the limit; and if the bank fails at that time, any excess amount could be a lost.

Here's the crux of the dilemma with any bank checking account: To make sure your funds are covered by the FDIC, you need to keep your balance under $100,000. But to maximize your interest on the float, you'd want your balances to be as high as possible, with no limit at $100,000.

Result: The two goals are in conflict. So if you want the full insurance coverage, you may have to forget about the float.

With Treasury-only money funds, I believe that insurance is a moot point. Your funds are invested strictly in securities that are guaranteed directly by the full faith and credit of the U.S. Treasury Department. And there is no limit on the Treasury's guarantee of its obligations — whether you're a beginning saver with just a few thousand, or you're a Bill Gates with billions.

Unlike bank accounts, there is no limit to your account size with a Treasury-only money fund — another reason for keeping nearly all your cash in one single, easy-to-manage account.

All the assets of Treasury-only money funds are invested in short-term U.S. Treasury securities (plus some securities that are fully backed by U.S. Treasuries). These are widely considered to be the safest securities in the world. So other than a decline in the value of the U.S. dollar itself (a subject I will cover shortly), U.S. Treasury securities are simply not at risk.

Indeed, most people in the financial industry (except perhaps for some bankers) would agree that the direct guarantee of the U.S. Treasury Department is actually stronger than the guarantee of the Federal Deposit Insurance Corporation. As a result, U.S. Treasury securities receive a higher credit rating than bank CDs.

The reason is obvious: There have been more than 3,000 bank and S&L failures in the last 30 years, causing savers and businesses serious inconveniences and even outright losses. In contrast, there has *never* been a default on U.S. Treasury securities … even when the government was temporarily shut down due to a budget dispute … even when the entire country was torn by Civil War.

Advantage #5. Exempt From Local and State Taxes. The income you earn on both Treasury-only money funds and bank accounts is subject to federal income taxes. So there's no difference between bank deposits and Treasury-only money funds in that regard.

However, when it comes to local and state income taxes, there *is* a significant difference:

The dividends you earn on Treasury-only money funds are generally exempt from local and state income taxes. On the other hand, the income earned on bank accounts and CDs is not exempt. And you should know that we did not account for the added benefit of this tax exemption when we compared the yields on bank deposits to those on Treasury-only money funds. Therefore, depending on your city's or state's tax laws, the after-tax yield advantage with a Treasury-only money fund could be even greater.

Advantage #6. Truly FREE Checking. Nearly all banks charge you — one way or another — for your checking privileges. They may charge you a fee for each check you issue. They may charge you a flat monthly service fee. Or they may charge you a combination of both.

Sometimes banks say they're giving you "free checking," but require large minimum balances, paying little or no interest. No matter what, you're paying for checking — and probably too much.

Most Treasury-only money funds do not charge you any extra fee for check-writing privileges. You can write as many checks as you want, as often as you want. At most money funds, when they say "free checking privileges," they really mean it.

This is not true for all Treasury-only money funds, however. And some do levy certain charges for special services — that's to be expected. But they're almost always lower than the charges at banks. Moreover, if you shop carefully, you can reduce even these charges down to virtually zero.

Advantage #7. Immediate Liquidity. As with any financial institution, there will be a holding period for the out-of-town checks you deposit to your account. But your money goes to work for you right away, generating interest income immediately. And if you deposit your money via wire transfer, you can avoid the holding period; your funds will be available immediately.

In short, except for the holding period, all of the funds received by your Treasury-only money fund are available to you all of the time. There are four ways you can withdraw your money from your Treasury-only money fund:

1. You can write a check against the balance in your account — to yourself or to another payee.

2. You can call or send a fax to your money fund's shareholder service department, giving them instructions to issue a wire transfer. (Before the fund can accept your wire instructions, however, you will need to have a signed authorization on file. This can be done when you open your account.)

3. You can request a check be sent to you directly from the fund. You can also authorize telephone instructions for redemption by check when you open your account.

4. You can establish a systematic program to automatically send a set amount to you monthly, quarterly, semi-annually, or annually.

The disadvantages: As you can see, there are tremendous benefits in using this plan: Treasury-only money funds offer you the opportunity to earn more. They can save you a great amount of money and time. They give you far more access to your money, opening up new investment opportunities, and potentially transforming the way you do business.

However, there are two disadvantages — one small and one not-so-small:

- Most money funds impose a minimum amount for each check, usually $100. So you may need a small checking account for checks under $100. If you shop around, though, you should be able to find a Treasury-only fund that will let you write checks for as little as $50.
- More importantly, never forget that a Treasury-only money market fund is denominated exclusively in U.S. dollars. Therefore, if the U.S. dollar goes down in value against other major currencies or other measures of value such as gold bullion, then the value of your dollar-denominated assets, including the safest of them all, also goes down.

However, if you are a U.S. resident or do business in the U.S., you will still probably need to keep most of your funds in U.S. dollars. Therefore, the solution is not to simply avoid holding dollars — that would be both impractical and potentially riskier. Rather, we believe the more prudent approach is to follow the plan we propose here for most of your keep-safe funds, while, as a hedge, separately allocating some funds to investments that rise when the dollar declines. For example, you can now buy exchange-traded funds (ETFs) offered by Rydex Funds, devoted exclusively to investing in major world currencies. For more information on these, see our report, *Currency Riches 2008-2009.*

How to Set Up a Treasury-Only Savings And Checking Account

Whether you are an active investor or not, whether you have a lot of money set aside or just small amounts, I recommend you follow these steps to open your account:

Step 1. Decide what type of account you want to open. For your personal checking account, it could be established as an individual, joint, custodian, or trust. (In addition, you can also use your Treasury-only money fund to open a separate account for your IRA or other retirement accounts.)

Step 2. Select any one of the Treasury-only funds in the table at the back of this report, investing exclusively in short-term U.S. Treasury securities or equivalent. These equivalents can include "repurchase agreements," which are fully backed by U.S. Treasury securities or other Treasury-only money funds. All of these qualify for state and local income tax exemption in most states.

Step 3. On their website, or while you're on the phone with them, get answers to a few questions about the costs associated with check-writing privileges:

- *"How many checks will you provide for me at no charge?"* For personal accounts, at least the first 20 or 25 checks should be free. If you want additional checks, it's reasonable to expect a printing charge, but it should not be more than $15 per 200 checks.
- *"Will you charge me a per-check transaction fee?"* If the answer is yes and you anticipate a relatively active account, don't do business with this fund.
- *"What is the minimum dollar amount for which I can make out each of my checks?"* It should be no more than $100. If it's over $100, this fund may not be suitable for your Treasury-Only Savings and Checking plan.

- *"What is the minimum balance that I must maintain in my account, and will you penalize me if my balance falls below the minimum?"* If the minimum is too high for you or if there is a penalty, look elsewhere.
- *"Do you accept deposits of second-party checks?"* If the answer is no, this isn't the right fund for this plan.

Step 4. Ask them to mail you a fund prospectus, along with the appropriate account application. Read it carefully before investing. You may also download the prospectus and application from the fund's website.

Step 5. If you are not sure about what forms and documents you will need to submit to open an account, now is the time to ask. Some typical types of accounts, along with the documentation needed, are:

Type 1. Individual or joint account, minor custodian account: You'll need the application and the signature card (indicate the number of signatures that will be required to cash a check).

For joint accounts, unless you specify otherwise, they will probably be opened as *joint tenants with rights of survivorship (JTWROS)*, meaning that the entire account balance will pass to the survivor in case one of the joint owners dies.

If you want the account to be registered as *joint tenants in common (JTIC),* be sure to specify that in writing when you open the account. JTIC means that each person owns a set percentage of the account; and if one person dies, his or her percentage does not automatically go to the survivor, but goes into the deceased's estate to be distributed.

If you wish a *custodian account for a minor child (UGMA),* don't forget to use the child's Social Security number for correct IRS reporting.

Type 2. Trust or guardianship: You will need the application and the signature card (indicate the number of signatures needed to cash a check). Plus, you will need certified copies of the appropriate trust documents or court papers appointing a guardian and any power of attorney forms, if applicable. Hint: Put the trustee name(s) first on the account registration to reduce the paperwork that would be needed whenever an account transaction is requested. Example: Jane S. Doe, TTEE Doe Family Trust.

Type 3. IRA, ROTH IRA, or other retirement account or rollover: Ask for the IRA or retirement plan application and agreement. This information should include a new account application, a transfer authorization, and a rollover certification form.

If you're opening a *new retirement account*, fill out the new account application only.

If you're *transferring a retirement account directly between custodians*, fill out both the application and the transfer authorization. Also be sure to include a copy of the most recent statement from your current custodian.

If it's an *IRA rollover* and you have a distribution from a retirement account that you are going to transfer to the Treasury-only money fund, fill out both the new account application and the rollover certification form. (Important: Due to IRS regulations, check writing is not possible on IRA accounts.)

Step 6. With the above documents, also provide the basic wiring instructions to the fund. If there is no space on the application, put the following information in a separate, signed letter:

- Your bank's name, city, and state
- Your bank's "ABA" number
- Your bank's wire transfer account number

- Your account number at the bank
- All registered names on the account

Note: The account title on your bank account should be the same as the title on your Treasury-only money fund account.

Step 7. Don't forget to sign the application. Then make your check payable to the Treasury-only money fund and mail it with your new account materials. You should receive written confirmation of your deposit in the mail within a few days, and a checkbook within about two weeks.

How to Maximize Your Yield With Treasury-Only Savings And Checking

Once you have completed the above steps to establish your Treasury-only account, proceed with the following steps:

Step 8. Keep only a minimal amount in your local bank. Most people maintain balances of $500 to $2,000 for petty cash and small, occasional checks.

Step 9. Use a major credit card for as many of your purchases as possible. Then, in order to avoid any interest charges, pay off your credit card in full each month with one check written off your Treasury-only money fund.

Step 10. To maximize your total yield and liquidity, transfer the bulk of your cash funds to the Treasury-only money fund account. These can include any investment funds you wish to keep liquid and available for upcoming opportunities, most of your regular spending money, and most of your keep-safe savings.

Step 11. Write all of your checks that are above the fund's per-check minimum from this account. These could include checks for paying your mortgage, rent, monthly credit card bills, utility bills, and any large purchases at establishments that give you a better price for non-credit card purchases.

Step 12. If you need a large amount of cash or want to buy traveler's checks, just call your Treasury-only money fund and give them instructions to transfer the money to your local bank. In most cases, if you call before 3 PM, you should have the funds in your account the next business day.

Step 13. At most funds, you may deposit your salary and any checks payable to you directly into your account. Just endorse the checks with your signature on the reverse side and include the words "for deposit to," followed by your account number at the fund. Then simply mail your deposit to the fund. (You may use the deposit slip and envelope that most funds provide you with your monthly statement.)

As always, do not send cash in the mail. If you have cash deposits, make them at your local bank and then send the funds to your Treasury-only money fund via either a check or wire transfer.

If you want to know if your check has cleared your fund, and you don't want to wait for the written confirmation in the mail, just call the fund's shareholder services at its toll-free number.

You will receive monthly statements from the fund showing all your checking transactions, plus any other activity including deposits, dividend income credits, etc. (Note: Canceled checks are not usually returned to you automatically, unless you specifically ask for them.)

That's it! With these steps, you will now have superior safety overall, significantly greater effective yields, greatly reduced bank charges, and maximum liquidity.

As promised, here is a list of Treasury-only funds:

American Century Capital Preservation Fund
(800) 345-2021
www.americancentury.com
Symbol: CPFXX

Cavanal Hill US Treasury Fund
(800) 762-7085
www.cavanalhillfunds.com
Symbol: APGXX

BB&T US Treasury Money Market Fund/Trust Shares
(800) 228-1872
www.bbtfunds.com
Symbol: BBUXX

Citi US Treasury Reserves*
800-625-4554
www.leggmason.com
Symbol: CISXX

Dreyfus 100% US Treasury Money Market Fund
(800) 645-6561
www.dreyfus.com
Symbol: DUSXX

Evergreen Treasury Money Market Fund, Class A*
(800) 343-2898
http://www1.evergreeninvestments.com
Symbol: ETAXX

Fidelity US Treasury Money Market Fund*
(800) 343-3548
https://www.fidelity.com/
Symbol: FDLXX

First American US Treasury Money Market Fund*
(800) 677-FUND
www.firstamericanfunds.com
Symbol: FOEXX

Gabelli US Treasury Money Market Fund
(800) 422-3554
www.gabelli.com
Symbol: GABXX

Huntington US Treasury Money Market Fund Trust
(800) 253-0412
www.huntingtonfunds.com
Symbol: HTTXX

JPMorgan 100% US Treasury Securities Money Market Fund*
(800) 480-4111
www.jpmorganfunds.com
Symbol: HTSXX

RMK Select Treasury Money Market Fund
(800) 564-2188
http://www.morgankeegan.com
Symbol: FITXX

Schwab US Treasury Money Fund
(800) 435-4000
www.schwab.com
Symbol: SWUXX

T. Rowe Price US Treasury Money Fund
(800) 225-5132
www.troweprice.com
Symbol: PRTXX

US Treasury Money Fund of America
(800) 421-0180
www.americanfunds.com
Symbol: UTAXX

US Treasury Securities Cash Fund
(800) 873-8637
www.usfunds.com
Symbol: USTXX

Vanguard Admiral Treasury Money Market Fund*
(800) 662-7447
www.vanguard.com
Symbol: VUSXX

Vanguard Treasury Money Market Fund*
(800) 662-7447
www.vanguard.com
VMPXX

Weiss Treasury Only Money Market Fund
(800) 242-8092
www.tommf.com
Symbol: WEOXX

* As of early 2009, these money market funds were temporarily not accepting new investors.