SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 403
SUBJECT NAME: WORKING CAPITAL MANAGEMENT

TOPIC NAME: PLANNING SHORT TERM INVESTMENT AND FINANCING

Short-term investments

- Short-term investments, also known as marketable securities or temporary investments are those which can easily be converted to cash, typically within 5 years. Many short-term investments are sold or converted to cash after a period of only 3-12 months.
- Short-term investments may also refer specifically to financial assets of a similar kind, but with a few additional requirements that are owned by a company.

Financial planning

- Financial planning, a lot of the times, is about investing for the long term. However People invest for the shorter durations primarily because their goal is near or they do not want to take the risk of locking in their money for a longer tenure. Although there is no single defined period for short-term investments, anything from 7 days to less than 12 months can qualify as short-term.

Investors with short-term money have two primary objectives:

- Safety of capital
- Return on capital

Following are some short term investment options:

- **Savings accounts:**
  One of the easiest and safest way to access your money is by having a savings account. The main motive here is liquidity, not that much on earning though. Banks provide not more than 4% to 7% return from savings accounts.
- **Liquid Funds:**
  These are kind of mutual funds that invest in short term government certificates and securities of deposits. You can enter and exit at any given time as these investments are secure. Try restricting throwing in your emergency funds in these, as the redemption takes around 2 days. One can expect around 4%-7% post tax return on liquid fund investment.

  Investors can consider liquid funds to park money for a period as little as one day to as much as 90 days or even higher. Liquid funds invest in money market investments like call money among others. It is rare for liquid funds to see a dip in their net asset values (NAV).

- **Short term funds:**
  Short term funds invest in securities that mature in 1-3 years. These funds are a little risky as the maturity of securities is more than ultra-short term and liquid funds. Taxation is the same as any other debt funds. Banks offer deposits of varying time frames beginning with a minimum of 7 days. So an investor looking to park money for even a week can choose a fixed deposit with a matching tenure.
- **Recurring deposits (RDs):**
  This type of secured investment and is suitable to those who don't want to invest in a lump sum and rather invest on a monthly basis. You can either use Postal RD or Bank RD, generally bank offers RD for a minimum tenure of 6 months to a maximum of 10 years. Also, the interest received on RD is taxable.

- **National Savings Certificate (NSC):**
  One can also invest in 5 years Postal NSC, if only you're sure that the goal is at exactly 5 years from today. You can claim tax deduction under Section 80C of Income Tax Act, but the interest will be taxable.
- **Arbitrage funds:**
  Also known as equity mutual funds, arbitrage funds are more tax efficient if held for more than a year. They give approximately 8% of interest post tax.
- **Fixed maturity plans (FMPs):**
  They have a lock-in period of minimum 3 years and act exactly like your bank FDs. They are more tax efficient though and you can expect better returns than FDs.

How short-term investments work:

- The goal of a short-term investment for both companies and individual/institutional investors is to protect capital while also generating a return similar to a Treasury bill index fund or another similar benchmark.
- Companies in a strong cash position will have a short-term investments account on their balance sheet. As a result, the company can afford to invest excess cash in stocks, bonds, or cash equivalents to earn higher interest than what would be earned from a normal savings account.
- There are two basic requirements for a company to classify an investment as short-term.
- First, it must be liquid, like a stock listed on a major exchange that trades frequently or U.S. Treasury bonds.
- Second, the management must intend to sell the security within a relatively short period, such as 12 months. Marketable debt securities, aka "short-term paper," that mature within a year or less, such as U.S. Treasury bills and commercial paper, also count as short-term investments.
- Marketable equity securities include investments in common and preferred stock. Marketable debt securities can include corporate bonds that are, bonds issued by another company but they also need to have short maturity dates and should be actively traded to be considered liquid.

Examples of Short-Term Investments:

- **Certificates of deposit (CDs):** These deposits are offered by banks and typically pay a higher interest rate because they lock up cash for a given period. They are FDIC-insured up to $250,000.
- **Money market accounts:** Returns on these FDIC-insured accounts will beat those on savings accounts, but require a minimum investment. Keep in mind that money market accounts differ from money market mutual funds, which are not FDIC-insured.

- **Treasuries:** There are a variety of these government-issued bonds, such as notes, bills, floating-rate notes, and Treasury Inflation-Protected Securities (TIPS).
- **Bond funds:** Offered by professional asset managers/investment companies, these funds are better for a shorter time frame and can offer better-than-average returns for the risk. Just be aware of the fees.

- **Municipal bonds:** These bonds, issued by local, state, or non-federal government agencies, can offer higher yields and tax advantages since they are often exempt from income taxes.
- **Peer-to-peer (P2P) lending:** Excess cash can be put into play via one of these lending platforms that match borrowers to lenders.
- **Roth IRAs:** For individuals, these vehicles can offer flexibility and a variety of investment options. Contributions, but not gains, to Roth IRAs can be withdrawn at any time, without penalty or taxes due.