

## Using Technology to Optimize Short-term Investing

Short-term investing is a key function in most corporate treasury departments. Corporate investors work to preserve principal and maintain liquidity while maximizing returns on their excess cash. For frequent investors, a few basis points can translate into thousands, even millions, of dollars in investment income. The financial services industry has developed a variety of automated systems designed to improve the short-term investment process. These tools differ significantly in terms of their features and functionality. It is important for the corporate investor to understand the major differences as well as the subtleties among the various automated investment tools offered by financial services providers (FSPs) and to select a product that will meet their needs while optimizing performance and control.

This article focuses on helping corporate investors better understand what they should consider when selecting a new online system or evaluating their current system. To do this, I will first overview some of the difficulties associated with traditional short-term investing. Then, I will explore the evolution of online investing while highlighting the differences among online systems offered by FSPs.

### Challenges Associated with Traditional Short-term Investing

Corporate Treasury departments and other investors of short-term corporate operating cash often find their investment process burdensome and inefficient. These investors typically deal with several broker-dealers and mutual fund providers as they attempt to broaden their investment options and



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maximize their return on excess operating cash. Investment choices as well as rates are normally quoted via the telephone through multiple conversations each day. In some instances, limited information may be available online.

Inefficiencies do not end with the transaction—subsequent to the trade itself, the corporate investor faces the daunting task of confirming transactions and gathering information from multiple sources to satisfy their control and reporting requirements. They sometimes confirm transactions via phone or wait for the mailed transaction confirmations. In addition, they receive monthly or quarterly transaction reports from different sources, at different times, and in varying formats. Integrating all of this information for internal accounting and management reporting can prove difficult.

Both conducting transactions with multiple providers and preparing associated reports consumes valuable employee resources and contributes to corporate expenses. Adding to the cost, companies face outbound wire charges, as they often must initiate wires to their various investment providers.

The complications inherent in dealing with multiple investment intermediaries or mutual fund providers cause some investors to select a single provider for their investment needs. Such investors benefit from simplification of the investment process using this methodology. Their investment performance, however, often suffers because of limited investment choices and the lack of competition between providers; these investors are not receiving the returns they could if they had a broader selection of investment alternatives and providers and intermediaries competing for their business. In addition, a respective entity may not achieve adequate diversification with a single provider. Some corporate investment policies limit the amount that can be invested through a single provider.



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## **The Evolution of Online Investing**

Considering the gaining popularity of the Internet and customers' growing desire to conduct online transactions, FSPs began to offer Internet-based systems that allow investors to execute certain investment transactions online several years ago. In some instances, users can also view information regarding their investments online as well. Depending upon the sophistication of the specific system, some of the challenges associated with traditional short-term investing, as previously described, have been significantly reduced.

Many of the typical investing roadblocks, however, remain with these online systems. Typically, most short-term investment transaction systems offered by FSPs provide limited investment alternatives. For example, it is common for a specific service to offer only mutual funds or only proprietary mutual funds. Many of the services that do provide securities post a limited selection that is often restricted to liabilities of the specific FSP.

Even the more sophisticated systems that supply expanded choices frequently lack integration with other treasury services. For instance, some offer securities and mutual funds on two entirely separate platforms. In addition to limitations on the investment menu, online systems are largely plagued by poor yields resulting from built-in or explicit transaction fees charged for the service.

## **New Cutting-edge Technologies**

Recently, FSP industry leaders are introducing more robust investment or treasury portals. These Internet-based offerings typically are more information rich and do a better job of integrating the investment function with other treasury services in an effort to present a complete cash management solution to customers.



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Although treasury portals overall are an improvement over initial online systems, not all treasury portals are created equal. Corporate treasury departments and other corporate investors should be aware of several key differences between these offerings prior to selecting an online portal or evaluating retention of any current portal. These include:

### **Investment Options**

An investment service delivered via a treasury portal should ideally offer a variety of money market mutual funds, both proprietary and third-party. Many systems exclusively provide proprietary funds, which is undesirable, as it prevents the investor from taking advantage of other, superior-performing funds and limits the ability to satisfy relationship requirements with multiple providers.

In addition to funds, the investment menu should contain a thorough selection of securities and other products. The offering should include, but not be limited to, liabilities of the FSP such as CD, Repo, and Eurodollar. In addition to these products, a more comprehensive investment service will supply securities such as commercial paper, treasuries, and corporate bonds.

All of these instruments, both mutual funds and securities, should be displayed and delivered on the same platform in the interest of optimal user efficiency.

### **Fee Structure—The Effective Yield**

It is important to understand the fixed--as well as the built-in fee components of many treasury portals. Some of these services charge explicit fixed fees for using the service. These fees, of course, are relatively simple to identify and evaluate. Many of those not charging these types of fees, however, are taking a share of the yield in excess of the fixed mutual fund distribution fees or charging commissions that are higher than traditional off-line brokerage services. Both of these aforementioned methodologies



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significantly reduce the effective yield earned by the corporate investor. In addition to these charges, investors are often forced to pay for inbound/outbound wires to move proceeds to and from the investment provider, also lowering the effective yield on any respective investment.

Investors are encouraged to inquire about how the FSP earns revenue and to select an FSP with a compensation system that is more like a traditional broker-dealer's. Ideally, the FSP should negotiate directly with mutual fund companies for distribution fees and realize modest selling concessions on securities sales. The FSP should interact directly with an investor's cash operating accounts to avoid wire charges to the customer.

### **Information and Reporting Capabilities**

Considering today's heightened focus on financial and management reporting, accurate, timely reporting in a manageable package is now a necessity rather than simply a luxury. A key advantage provided by investment services that are delivered via a treasury portal is the ability to report consolidated, timely information. Provided a respective system's investment inventory is robust enough to allow one-stop investing, an investor can benefit from consolidated reporting of their investment activity. In addition to improving internal control over investment information, consolidated reporting of both investment positions and transactions may help investors save time and money.

The best systems allow the user to view transaction status in real-time and report daily information on investment positions. These systems store at least 12 months of transaction history. More sophisticated systems extend beyond simple reporting features and offer information on allocation, average positions in respective instruments, industry benchmarks, and historical yield information.



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### **Availability of Market Professionals Off-Line**

Investing through an online treasury portal is most powerful when combined with the expertise of a licensed investment professional. An FSP should assign a licensed representative to your account and this investment professional should closely work with you to devise the appropriate strategy given your corporate investment policy and applicable time horizons. In an ideal relationship, the representative will carefully monitor the market for limited time opportunities and contact you when these opportunities fit your investment profile. At all times, your investment representative should be available to answer your questions or address any unique needs that may arise.

### **Integration with Other Services**

Many of the large broker-dealers in the financial industry provide stand-alone investment platforms that demonstrate some of the advantages of online investing mentioned above. The most efficient systems in the industry, however, offer the investment function as one component of a complete online treasury services offering. Such packaging of services allows performance of a spectrum of cash management functions on one integrated platform. Services in addition to online investing might include balance reporting, collection, disbursement, automated sweep, and payment initiation.

In conclusion, the advent of online investing has certainly improved the short-term investing processes of corporate treasury departments that have decided to adopt an online system. It is important for the investor considering an online system for the first time or evaluating their current system to understand the differences between the online tools offered by FSPs. The investor is encouraged to select a system that offers an extensive menu of investments at effective yields competitive with traditional broker-dealer services. Given the dynamics of capital markets and specific investment policy requirements, an off-line licensed investment professional should provide accessible expertise to complement any online service. For optimal efficiency, an online system



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must provide timely, accurate reporting of investment information and integration with other treasury services.

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