

Fund Essentials™

*preserving*  
capital



THE **Vanguard** GROUP

# Vanguard® money market and short-term bond funds

*Making money is one thing—  
keeping it is another*



These days, you can hardly turn on the TV, pick up a newspaper, or even enjoy dinner with friends without encountering someone's so-called surefire investment advice. Making more money—fast—seems to be on everyone's mind. What may not be as glamorous to talk about, but is in fact key to your financial success, is how to **hold on to the money you already have.**

This brochure explains how selected Vanguard funds can help you **preserve capital.** These funds reduce or minimize risk to principal, so they can be a great source of stability to your portfolio.

## Why is preservation of capital so important?

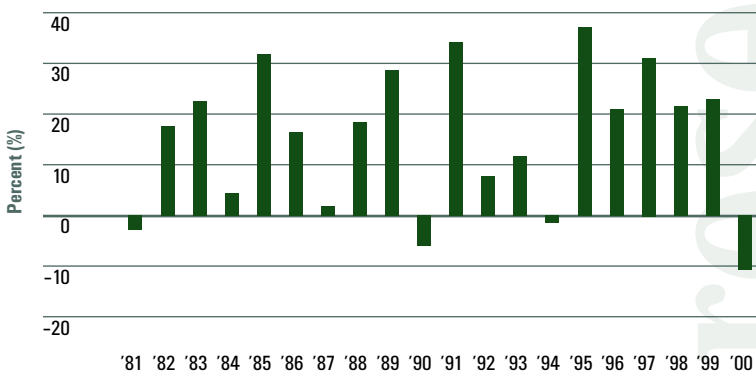
**Financial markets are unpredictable.** If there were only bulls and no bears, perhaps preserving your assets wouldn't be a big concern. But the fact is that although the stock market giveth, it also taketh away. And while that may be a risk you're willing to take with some of your money, chances are you'd like at least a portion of your assets to be relatively stable.

**You have short-term goals.** When you're saving for something in the not-too-distant future, look past your bank account. Money market and short-term bond funds are a smart way to invest your money for shorter periods—usually at higher returns than banks provide—without incurring a lot of risk.

**Emergencies happen.** You can't plan for the unexpected, but you *can* be ready for it. The stability of Vanguard's money market and short-term bond funds is complemented by a helpful checkwriting option that gives you fast access to your money when you need it.

### The uncertainty of the stock market

Wilshire 5000 Total Market Index Annual Total Returns: 1981–2000\*



\*Source: Wilshire Associates Incorporated.

## What are the risks?

Although these funds are intended to preserve capital, they are not without certain risks. Money market funds invest in high-quality, short-term cash instruments and can be expected—although not guaranteed—to remain constant at \$1 per share. However, like all investments that seek to preserve capital, a money market's income will fluctuate, sometimes considerably, in response to interest rate changes.

Prices of bond funds fall as interest rates rise, so investors in these funds could lose money if they sell shares at lower prices than they paid for them. As in money market funds, yields of short-term bond funds fluctuate along with interest rates.

Inflation may affect both money market and bond funds, eroding the purchasing power of an investment over time.

## What should you consider when selecting a fund for capital preservation?

To determine whether a particular fund is right for you, ask yourself a few questions.

- 1. What is your investment time frame?** If you know that you'll need your money within a relatively short period of time, or if you're simply not sure *when* you'll need it, consider investing in a money market fund. If you're planning to keep your investment approximately one to three years, a short-term bond fund may be an appropriate investment.

- 2. How do the stated risks of the fund compare with your tolerance for risk?** While short-term bond funds carry less risk to principal than long-term bond or stock funds, their prices do fluctuate modestly, so your investment will too. And, though short-term bonds have lower credit risk than long-term bonds and are generally considered to be high-quality investments, Treasury funds are considered even safer because they invest primarily in U.S. Treasury bills and notes backed by the full faith and credit of the U.S. government. Money market funds are the most stable since they seek to maintain a net asset value of \$1 per share.
- 3. How does the fund you're considering fit in with the rest of your portfolio?** Ask yourself whether the fund fills a specific need in your portfolio, such as allowing you to have cash on hand in case of an emergency. You'll also want to be sure that it doesn't cause you to stray from your desired asset allocation.

**Need help** making the right investment choices?

help

*The Vanguard Investment Planner*, from our Plain Talk® Library, can help you choose the appropriate investment. You can download the brochure from our website, Vanguard.com™. To receive a copy by mail, complete the attached reply card or call us at 1-800-642-8999.

## Some Vanguard funds to meet your capital preservation needs

We offer a broad selection of low-cost funds that can help preserve capital. Here are a few to consider.

Each of the money market funds seeks to provide current income while maintaining a stable share price of \$1.\*



\*The funds are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in such a fund.

\*\*The government's backing applies only to the timely payment of principal and interest on the securities held in the funds, not to the funds' shares. Note that some or all of the income from the U.S. Treasury obligations held in these funds may be exempt from state or local income taxes.

\*\*\*For some individuals, a portion of the income from municipal bond funds may be subject to the alternative minimum tax.

### **Prime Money Market Fund**

invests in a variety of corporate and U.S. government agency securities. It typically offers the highest yield of our money market funds.

### **Federal Money Market Fund**

invests primarily in securities issued by U.S. government agencies, providing an extra margin of credit quality.

### **Treasury Money Market Fund**

offers the highest degree of credit protection by investing exclusively in U.S. Treasury obligations and other government agency securities backed by the full faith and credit of the U.S. government.\*\*

### **Admiral™ Treasury Money Market Fund**

, like the Treasury Money Market Fund, invests in government-backed U.S. Treasury obligations and other government securities.\*\* Because of its \$50,000 minimum initial investment, the fund boasts an even lower expense ratio than our other Treasury funds.

### **Tax-Exempt Money Market**

**Fund** combines the stability and safety of a money market with the benefit of tax-exempt income. Like other municipal bond funds, this fund is generally suited for investors in high tax brackets who want to shield some of their investment income from federal taxes.\*\*\*

### **Short-Term Federal Fund**

invests primarily in short-term bonds issued by U.S. government agencies. These securities are government-backed but do not carry the same full faith and credit guarantee as those issued by the U.S. Treasury.

### **Short-Term Treasury Fund**

seeks to provide a higher level of current income than a money market fund in addition to preservation of capital. It invests primarily in short-term U.S. Treasury bills and notes, the interest and principal payments of which are backed by the full faith and credit of the U.S. government.\*\*

## Key fund facts

	<b>Inception Date</b>	<b>Income Risk*</b>	<b>Interest Rate Risk**</b>	<b>Expense Ratio***</b>	<b>Relative Yield (within this group of funds)</b>	<b>Suitable for Retirement Accounts?</b>
<b>Prime Money Market Fund</b>	June 4, 1975	High	Negligible	0.33%	Moderate to high	Yes
<b>Federal Money Market Fund</b>	July 13, 1981	High	Negligible	0.33%	Low to moderate	Yes
<b>Treasury Money Market Fund</b>	March 9, 1983	High	Negligible	0.33%	Low	Yes
<b>Admiral Treasury Money Market Fund</b>	December 14, 1992	High	Negligible	0.15%	Low	Yes
<b>Tax-Exempt Money Market Fund</b>	June 10, 1980	High	Negligible	0.18%	Varies†	No
<b>Short-Term Federal Fund††</b>	December 31, 1987	High	Low to moderate	0.30%	High	Yes
<b>Short-Term Treasury Fund††</b>	October 28, 1991	High	Low to moderate	0.29%	Moderate to high	Yes

\*Income risk is the chance that falling interest rates will cause the fund's income to decline.

\*\*Interest rate risk is the chance that bond prices overall will decline over short or even long periods because of rising interest rates.

\*\*\*For the fund's most recent fiscal year.

†The fund's relative yield, on a taxable-equivalent basis, will depend on the investor's tax rate.

††Also offers Admiral™ Shares, a separate class that offers lower expenses. The minimum initial investment for this share class is \$250,000.

## Vanguard—a smart choice for preserving capital

In addition to the funds described in this booklet, to the right are several other Vanguard funds that pursue similar investment strategies. You can get more details about all of our funds by visiting our website, [Vanguard.com](http://Vanguard.com), or by calling us at 1-800-642-8999.

### Open your account online today

Once you've selected the funds that best meet your needs, you can open your account online using secure e-signature technology. Visit our website at [www.vanguard.com/?invest](http://www.vanguard.com/?invest) to get started.

## Other Vanguard funds to consider

### Bond

Short-Term Bond Index Fund

Short-Term Corporate Fund

### Tax-Exempt

Short-Term Tax-Exempt Fund

### State-Specific (for residents of the named states)

California Tax-Exempt Money Market Fund

New Jersey Tax-Exempt Money Market Fund

New York Tax-Exempt Money Market Fund

Ohio Tax-Exempt Money Market Fund

Pennsylvania Tax-Exempt Money Market Fund

## Inflation-Protected Securities Fund:

*Preserving your assets with a difference*

Like the money market and short-term bond funds described in this brochure, Vanguard® Inflation-Protected Securities Fund is an effective tool for preserving capital. But even though this fund is technically a bond fund, investors should think of it quite differently than they do other bond funds.

Inflation-Protected Securities Fund invests in inflation-indexed securities issued primarily by the U.S. Treasury and other U.S. government agencies. These securities are designed to provide a “real” return—one that keeps up with inflation—without exposing investors to the risks inherent in more volatile holdings. Their principal value and income are automatically adjusted for changes in inflation over time, substantially limiting the fund’s exposure to the adverse impact from inflation over the long term that conventional bonds and common stocks experience.

Distributions of Inflation-Protected Securities Fund can fluctuate considerably—usually more than those of traditional bond funds—and the fund’s share price can be expected to fluctuate modestly.





**THE Vanguard GROUP.**

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complete information on risks,  
advisory fees, distribution  
charges, and other expenses  
and should be read carefully  
before you invest or send  
money. Prospectuses can  
be obtained directly from  
The Vanguard Group.

**World Wide Web**

[www.vanguard.com](http://www.vanguard.com)

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Information**

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