

What is a CERTIFICATE OF DEPOSIT?



A Certificate of Deposit (CD) is a guaranteed investment product commonly sold by credit unions and banks

CD FEATURES



Fixed INTEREST RATE

A CD offers a guaranteed interest rate for a specified period of time

Fixed TERM LENGTH

You leave your money in a CD for the term you've agreed to (typically three months to five years)



Fixed MATURITY DATE

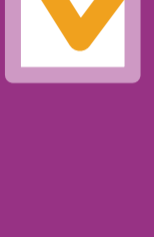
A CD is held until a maturity date, at which time the funds can be withdrawn and interest is paid

CD BENEFITS



PREDICTABLE RATE OF RETURN

CDs offer a guaranteed interest rate, so you know exactly how much your investment will increase in value over time



FEDERALLY INSURED

Most CDs sold by credit unions and banks are insured up to \$250,000 by the National Credit Union Administration (NCUA) or the Federal Deposit Insurance Corporation (FDIC)



LESS SUSCEPTIBLE TO MARKET DYNAMICS

Unlike stocks or mutual funds, your investment in CDs is guaranteed to increase in value, no matter what happens to the economy or the financial markets

CD LADDER STRATEGY

A way to maximize your income potential while still maintaining some access to your funds is by using a CD ladder strategy

Basically, you divide your money into smaller chunks and deposit them at different times, so that you end up with some of your money in a long-term CD with a high interest rate, but also have some of it available for withdrawal or reinvestment every year. This way, you get the benefits of the long-term rate without locking up all your money.

CD LADDER EXAMPLE



If you have \$5,000 to invest, first you divide it up equally, resulting in five parts of \$1,000 each



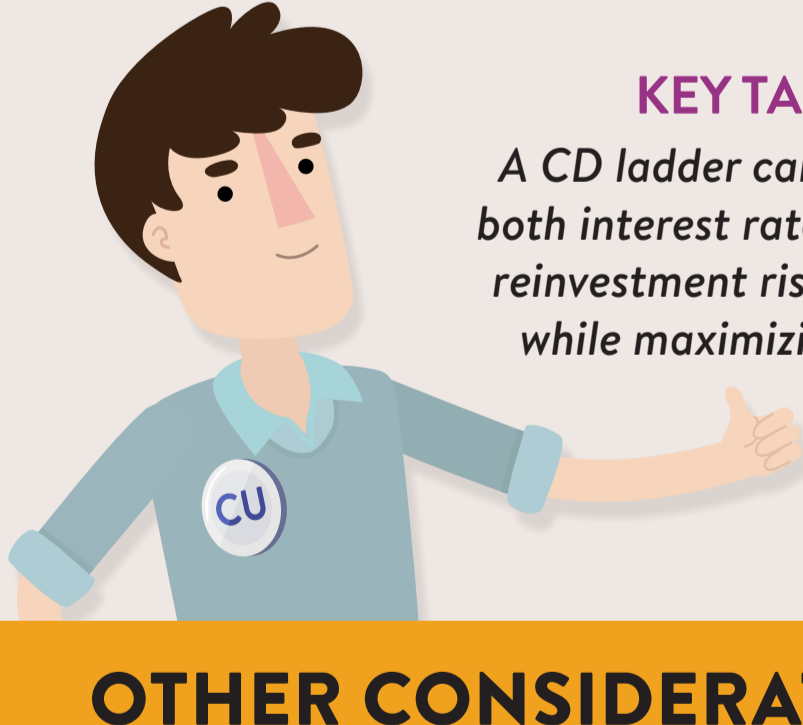
Then you buy five CDs ranging from one-year to five-year terms

When your first year is up, unless you really need the money, you can take the balance from the one-year CD and reinvest it as another five-year CD

From that point on, you keep reinvesting in five-year CDs every year—that way, you can have access to part of your money each year as one of your CDs matures, while at the same time taking advantage of the better rates for longer-term CDs

KEY TAKEAWAY

A CD ladder can decrease both interest rate risks and reinvestment risks for CDs while maximizing returns



OTHER CONSIDERATIONS

1

You will find lots of options for term lengths and interest rates when you shop around for CDs

2

If you think that interest rates are about to rise, then you should keep the term lengths of your CDs shorter, so that you can take advantage of higher rates on your next CD purchase

3

If you think that interest rates will fall, then you should invest in longer-term CDs and lock in the higher interest rates right now

4

There are also callable CDs, which may offer higher rates, but the financial institution can choose to redeem, or call away, the CD prior to the maturity date, which usually happens when interest rates suddenly drop

BROUGHT TO YOU BY



Sources: Forbes, Investopedia, NerdWallet