

# Guaranteed Deposits

Alright! Some extra cash, into the shoebox with you.

Hey!

Ms. Ham Ham! You scoundrel!

What do you have to say for yourself?

What?

You know a shoebox isn't the best place to keep your money, don't you?

If it's just sitting there, why not grow it?

I have some investments, but this always has to be safe, long-term.

What if I told you there's a safe way to make your sweet stash get even sweeter with time?

Just like my aging horde of food pellets!

Hahaha, yum. Go on.

What do you know about CDs?

Uhhhm, I "see dee" point you're making?

But not really.

A CD is a Certificate of Deposit. When you buy a CD, you make a deposit with a financial institution, and they hold it for a fixed amount of time.

Then at the end, on the maturity date, they pay you back with a guaranteed percentage of interest added to your initial investment.

Basically, you sacrifice the liquidity of your cash for safe earnings.

Generally, the longer the term, the more interest your money will earn.

But what if I really need the money?

If you want more access to funds, try a laddering strategy!

Like, climbing rungs, circus performance laddering?

Pretty much!

If you have \$5,000 to invest, first divide it into equal parts – say, five parts of \$1,000 each.

Then you buy a CD with a one-year term, another with a two-year term, then a three-year, four-year and five-year term.

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.

But don't the rates fluctuate? How do you deal with that?

Very true.

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

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

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

JEN: Alright, time to climb the CD ladder to success!

Yes! Keep in mind 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.

Good to know. I'd better get started this instant!

Yeah! But...can you wait until tomorrow to get started on that CD?

Ahhhhh. What? You never wanted to sleep on a bed made of cash?

Ahhhhh. OK, this is pretty great.