

PHONE: 970-204-1500

Email: greg@balancedfinancialinc.com

BALANCED FINANCIAL INC.

3711 JFK Parkwy, 230

Fort Collins, CO 80525



New CD in Town

Who would have ever thought a bank certificate of deposit would merit an entire article...they are *common as an old shoe*, a bank product that a lot of retired folks have used for generations. Generally the only question to discuss is “what’s the rate?”

But there’s a newer generation of FDIC insured bank CD’s to consider; the **variable rate, market linked CD’s**. These are issued by federally chartered U.S. banks and have the same FDIC protection you are used to, but with a new twist...we don’t know the yield from year to year. That yield will never be negative (you can’t lose money), **but could be as low as zero** for a given year and then in other years be in the 3 to 6% range.

For example, at the time of this printing the most recent declared yield was for a 6 year CD cycling in February; it paid a one year yield of

- 4.23% in 2015
- 1.62% in 2014
- 3.32% in 2013
- 5.78% in 2012

That’s a four year average yield of 3.74%. Finally some attractive FDIC insured yields!

“I’m thrilled with this alternative” said Steve a Fort Collins resident and retired engineer. “I’ve used CD’s for years, but when my last group of certificates matured in January, the bank offered me 0.55%.” Steve continued, “obviously the banks don’t want my money these days.”

The interest earned is paid each year **at the anniversary** and can’t be compounded into the existing CD. Other features include:

- they can be set up for IRA or non IRA dollars
- generally have minimums of \$25,000
- no risk of a negative yield, but you can have a zero yield in a year
- are issued by very large, national or global banks
- often have longer terms; more toward the 5 year range,
- most have additional liquidity or access to your funds during the term, but vary somewhat from product to product

Of course they aren’t for every situation, but before you renew that CD with the bank on the corner - contact a safe money specialist who can show you examples of this ‘new CD in town.’

-By Greg W. Anderson *CEA*

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