SINGER
WEALTH

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Equity-linked CDs

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Socking money away in a traditional low-yielding certificate of deposit is not very attractive under current conditions. The most recent trailing 12-month consumer price index rose by 8.5%. Although your principal in a CD is protected for up to $250,000 by the United States, your buying power is virtually guaranteed to decrease by the end of the term.

This loss of buying power has pressured many investors to take more risk than they would otherwise like to take, hoping to slow down the erosion of their buying power. What if there was a way that your CD had a chance to not only keep up with 8.5% inflation but potentially earn considerably more than inflation, all while you enjoyed the security of FDIC insurance?

Equity-linked CDs can give savers the opportunity to keep up with inflation. Instead of earning a paltry rate of declared interest, savers earn interest based on the performance of a volatility-controlled index that typically includes a combination of U.S. stocks, international stocks, emerging-market stocks, commodities (such as gold and silver), and U.S. Treasuries.

The issuing bank uses derivatives to track the underlying index and if the index appreciates, the bank will be able to pay interest to the account holder. At the end of the term, if the index is negative your principal is still protected.

However, if the index has gone up, the CD owner will be paid interest based on a predetermined multiple of the index returns.

Major banks are currently illustrating equity linked CDs that would have earned over 12% PER YEAR for the CD owner over the last five years ended in 2021 based on back testing performed by the banks. That would have more than kept pace with inflation while keeping the principal safe.

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