ASK THE **ADVISERS**

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Don't Buy a CD

One of the main reasons why people purchase Certificates of Deposit (CD's) is because if the issuing bank fails, their money is insured for up to $250,000 by a government agency called the Federal Deposit Insurance Corporation (FDIC). However, if you put $250,000 in a CD paying 4% interest and the bank that issued the CD goes out of business FDIC will cover your losses only up to $250,000; your earned interest may not be protected in that scenario.

A better alternative is to purchase Treasury notes (over one year of maturity) or Treasury bills (under one year of maturity). One-year treasuries are currently yielding 4.697%* and six-month treasuries are yielding 4.72%.*

Most one-year CDs currently yield a little over 4%. Unlike CD's which have a $250,000 limit on Federal protection if the issuing bank fails, treasuries do not involve banks which could fail.

With treasuries your interest and principal are guaranteed directly by the United States of America with no limits. Treasuries are also more flexible than CDs. If you cash out a CD early there will always be a penalty for early withdrawals. Similarly, if you buy a treasury note and interest rates subsequently rise you will need to hold your note until maturity if you want to receive full value.

However, if you purchase a treasury and interest rates fall, not only won't there be a penalty for cashing out early, but there would be an additional gain.

Finally, if you purchase a treasury on the secondary market that was originally issued when interest rates were low, they will have very low coupons. Therefore, you are currently able to purchase Treasuries at a substantial discount that will mature at par. This means that the coupons will be taxed as ordinary income but most of the return could potentially be taxed as a capital gain. Capital gains are taxed at a lower rate than ordinary income and can also be completely offset by realized capital losses.

*Source CNBC as of 12/7/2022

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