The Benefits of FDIC Insured CDs

By Josh Bradley, Managing Partner

With the recent ups and downs of the market, people are taking a closer look at safer investments. Many look towards bonds or bond funds to fill this need. While bond funds may provide more stability and income, there are better alternatives.

There are four primary reasons why you should consider dumping your bond funds for FDIC-insured CDs:

Safety. Bond funds can have credit ratings from "junk" status to high quality. Each of the ratings signify the level of risk that the bonds may lose interest and principal. CDs have FDIC insurance that guarantees principal and interest (as long as the investment amount stays within the insurance limits). Eliminating the potential risk of losing money is the primary reason people prefer CDs.

Simplicity. In a fund the investor owns a basket of potentially hundreds of bonds that change almost daily due to the manager buying and selling based on his/her guess of where the market is going. To complicate things further, the manager has to sell bonds to redeem other investors who are moving their funds out. As an investor, it is almost impossible to find out what you own, what it is paying, and when it is coming due on a daily basis. By owning CDs you always know exactly what you own at all times. You also have complete control over if and when you want to sell the CD early.

Higher income. The yield on most highly rated, medium term bond funds are earning barely above 2.5%. CDs with the same term can yield almost 3%. At Capital City Financial, we have seen clients increase their income by 20% with this simple change. In a low interest rate environment like today's, every extra dollar of income is important.

Lower cost. CDs are able to provide higher returns primarily through lower costs. Fees on bond funds can cost up to 1%. CDs have no internal fee which allows investors to keep all of the interest they earn.

A great example is the Vanguard Total Bond Fund, VTBIX. This is the largest bond fund in America and has some of the lowest fees. As of June 2019, it is earning 2.66% interest. To attain this yield, this fund is investing investor money into bonds with an average maturity of 8.2 years. Most people we see are surprised by how little their bond funds are currently earning and how long they are locked up for. As of June 14 2019, there is a 5 year CD earning 2.85%. When compared to VTBIX, this CD would allow you to increase your interest earned, shorten your holding period, and be completely FDIC insured.

If you are interested in a complimentary assessment of your current investments, fees, tax allocation, risk profile, and/or retirement income plan, contact Capital City Financial Partners at 803-782-0671. Take control of your finances today so you can live with confidence and comfort! •

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