

# The Benefits of Laddering Your CD Investments

## LADDERING CD'S TO MINIMIZE RISK

The key to successful investing is obtaining the highest return possible while minimizing the associated risks. Here's where this proven financial strategy comes into play: You can maximize your liquidity and minimize your interest rate risk by building a CD ladder.

To demonstrate how a CD ladder works, let's assume you have \$5,000 and you feel comfortable with one year terms. You would build your ladder with five separate \$1,000 CDs with the following maturities:

- CD 1 - 12 months for \$1,000
- CD 2 - 24 months for \$1,000
- CD 3 - 36 months for \$1,000
- CD 4 - 48 months for \$1,000
- CD 5 - 60 months for \$1,000

As each CD matures, you'd roll the money into a new 60-month CD. Renewing CD 1 for 60 months, for example, would cause it to mature exactly 12 months after CD 5. When you use the same 60-month term for each subsequent renewal, your maturities would remain staggered 12 months apart. In doing so, you'd earn the higher CD rates associated with longer terms, while still having partial access to your savings at regular intervals. You also are never more than a year away from at least some of your money.

Another advantage to laddering your CD's is that over time it evens out the high and low interest rate cycles. Some years interest rates will be high, other years the rates will be lower. Also, you do not have to invest in a 5-year ladder. You may be more comfortable with a three year ladder based on your financial needs.

The benefits of laddering your CD investment is that you will already have money invested in higher yield terms when rates are low and increase your returns when rates are high, and still have access to a portion of your money should you need it for an emergency.

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