

Smart CD investors are always playing a balancing act between receiving the best interest rates without locking their money away long term. This keeps them flexible to go after better rates as the market goes up. A successful way you can accomplish this is by structuring your CD maturities in what is known as a CD Ladder. This is a common practice not only in the CD investment world, but also in the Bond investment market. As investors, we don't know *when* the rates will go up and by *how much*; but with this strategy you can make your money work harder, earn more money in the long run, and enjoy the flexibility of a CD coming due on a regular basis.

Let's Break it Down

A CD Ladder is an investment strategy where multiple CDs are organized to mature over several years. Imagine a ladder with 4 rungs, each rung is farther away from the ground. These rungs each represent a different CD, with a different maturity date farther and farther out in time. By using a CD Ladder, you can make sure that money is periodically available, and reduce the chances of buying a CD when rates are at their worst.

Let's Talk Numbers

Learn how to create a CD Ladder that will help you accomplish your goals. Using a simplified example of \$400, you could easily build a CD Ladder with these rungs:

<u>At Account Opening</u>	<u>At 1 Year Renewal</u>
4 year CD - \$100	New 4 year CD - \$100
3 year CD - \$100	3 year CD - \$100
2 year CD - \$100	2 year CD - \$100
1 year CD - \$100	1 year CD - \$100

The strategy is this: Each time a CD comes up for renewal you should reinvest it into the longest maturity with the best rate possible. In this example, at the time the 1 year CD renews, each of the other 3 CDs have "moved down a rung" leaving the 4 year CD rung available for a new CD to be invested. Then, every year going forward, you will have a CD renewing and the ability to reinvest it at a better rate.

Let's Simplify

People use CD Ladders for flexibility and simplicity. With this strategy, you are no longer locking your money away into one CD and waiting until it comes due – all the while you see rates changing and wish you could be getting the best rate possible. By staggering your investments this way, you always get a chance to bump up your rate at the time of renewal.

Let's Discuss Duration

How long you extend your CD Ladder depends upon what you'd like to accomplish. It is well known that CDs with long maturities pay higher rates, so a longer CD Ladder should earn you a little bit more. However, to accomplish this, you have to be comfortable with tying that money up – but with the beauty of a CD coming due regularly you have the option to reinvest all, or part of it, or simply change strategies.

In turn, how far apart you space each rung depends upon your comfort level as well. Typically, CD Ladders are easier to maintain at 6 month or 1 year maturity intervals, any shorter and it becomes too much work. The best option is to find the happy medium that works best for you.