CDs: Minimize Risk For Maximum Gain

(NAPSA)—You read the newspapers, you follow the financial news on TV and it looks like interest rates are going up. Time to exercise the "bump-up" option on your CD, and get a higher rate.

"Sure," says the voice on the phone, "an excellent time to bump up. How much more would you like to invest? Or for how much longer should we extend the CD?"

More? Longer? You just want a better rate. Too bad you skipped the fine print about fees when you bought your "bump-up" CD.

If you're looking for security and a stable rate of return, Certificates of Deposit are one of a savvy investor's best choices for risk-free investing. You deposit your money for a fixed term—from a few days to a decade—and get a fixed interest rate, usually better than in other types of deposit accounts. In most cases, the longer the term, the higher the rate, and it's all FDIC-insured up to $100,000.

There are, however, two things to bear in mind about standard CDs. First, interest rates may go up, say, six months after you purchase a two-year CD, leaving you earning below-market rates. Second, you might pay a penalty for early withdrawal.

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Non-traditional CDs: A bit more return, a bit more risk.

A *"Bump-up"* CD is specifically designed to offer you a hedge against rising market rates. You'll usually get a slightly lower rate to begin, and you'll have the opportunity to "bump-up" to a higher rate once—perhaps even twice—during the term of the CD. But you may have to increase the size of your CD, and/or extend its term even longer.

"Callable" CD rates rise at specific intervals during their terms. Which means that, theoretically, market rates could go down six months after you purchase that Callable two-year CD, while your Callable's rate goes up. But most often the bank will "call" that CD, pay you and say "thank you." You, on the other hand, do not have the "call" option and, if interest rates go up, you could end up with a below-market investment.

"Make sure you work with a knowledgeable banker," says Bank of America's savings and investing specialist Beverly Ladley. "Before you open a CD, spend the time to understand what fees or restrictions may apply."

A smart way to minimize CD risk. *"Laddering"* is one way to maximize your investment potential without resorting to riskier non-traditional CDs. By dividing some of your funds and investing in multiple CDs with staggered, or "laddered," maturity dates, you can take advantage of the higher rates long-term CDs generally pay. You can move the rest of your money around in shorter-term CDs to take advantage of changing market conditions.

"Look for a high-quality CD from a first-rate institution similar to Bank of America's Risk-Free CD," Ladley continues. "If you need access to your money before maturity you can access your funds with no early withdrawal penalty."

Sounds like sound advice.