# Certificate *of* Deposits

BY JESSICA PERRONE

Jessica Perrone, Founder of HerFinIQ.com, is a Summit mom and experienced investor who's on a mission to empower women and teen girls through Financial and Investing Education. Each month, she will answer questions she commonly receives on how to invest.

## Question:

***Dear Jessica, What are your thoughts on Certificate of Deposits or CDs as a destination for an Emergency Fund?***

***-Jennifer, Chatham***

Dear Jennifer, That's a great question, and I am proud that you are thinking about your emergency fund! In the HerFinIQ "Before Investing" class, I discuss getting your "Financial Ducks" in a row before investing, and establishing an emergency fund is one of the top ducks! Most financial planners suggest having 3-6 months of expenses saved up. So it is only natural that an individual would wonder, "Where should I park that chunk of money?"

*Before going into CDs, let me define a few terms here:*

- **Depositor:** A person who keeps money in a bank account.
- **Term:** A fixed length of time for which something is intended to last.
- **Principal:** A sum of money lent or invested on which interest is paid.
- **Liquidity:** How easily you can get to your cash. *Savings & checking accounts are liquid because they can be easily converted into cash when required.*
- **"Stay Liquid":** *Keep your money in a location where you can get cash quickly.*

*Certificate of Deposits* or CDs are savings accounts where the bank locks in your money for a set term. The bank then gives the *depositor* a higher APY or Annual Percentage Yield for committing to this term. The catch is that if an emergency occurs and your money is locked in a CD, you would have to pay a penalty upon withdrawal.

**Pros of Certificate of Deposit or CDs**

- FDIC banks insure CDs for up to $250,000 per account owner.
- A guaranteed rate provides a consistent return on your deposit over a specific *term*.
- CDs usually offer higher APYs than traditional savings or money market accounts.

**Cons of Certificate of Deposit or CDs**

- CDs lack *liquidity*, requiring that you lock away your money for a set *term*.
- CDs frequently have penalties for taking out money before the maturity date.
- Locked-in rates may hurt a depositor if rates later rise substantially and an individual can't take advantage of higher-paying CDs.

Ok, Jennnifer, back to your question, an emergency fund is created for monetary predicaments, and we never know when that emergency will strike. Because of this, you may want to "stay liquid" or have your emergency fund in an account where you can get the cash out quickly. With that said, because your money is locked in, a CD is not liquid. You can be penalized for early withdrawal.

If you are looking for a *liquid* savings account with a higher APY, I suggest investigating *High Yield Savings* accounts. *Online banks* offer *High Yield Savings* accounts that can provide higher APY than most CDs from traditional brick and mortar banks. *Bankrate.com* is an excellent resource for comparing various savings accounts from online banks and their APYs.

I hope I explained CDs in an approachable manner. As with all money decisions, it is essential to do your research, but understanding what resources are available for you is a great place to start! If you are interested in hearing me talk about money and investing, please join me for my free show – "*Her Investing Coffee Talk*" Thursdays at 10am, on Facebook & YouTube @HerFinIQ.

May The Markets Be In Your Favor,
Jessica Perrone