

What Savings Alternatives Are Available?

As an investor, it's important to have a portion of your holdings in savings. Opinions differ, but most financial advisors agree that adequate savings should form the basis of any sound investment strategy. There are a number of savings alternatives that will help you accumulate adequate savings and earn a reasonable rate of return.

Certificates of Deposit

Certificates of deposit are really just short-term loans to a bank, credit union, or savings and loan. They offer a moderate rate of return and more safety because they are insured by the FDIC for up to \$250,000 per depositor, per institution in interest and principal.

Asset Management Accounts

These accounts are much like checking accounts, except that they may be held by a brokerage instead of a bank. You can use your money to trade stocks and bonds and buy into money market funds. Many brokerages will automatically sweep your earnings into a money market account.

Series EE Savings Bonds

For many years, when bonds were mentioned, people thought of U.S. savings bonds. Series EE savings bonds are sold in par values that range from \$50 to \$10,000 if purchased in paper form or from \$50 to \$5,000 if purchased electronically. Tax on the interest is deferred until maturity and may be eliminated if the proceeds are used to pay for a college education.

I Savings Bonds

These bonds are designed to offer protection from inflation. By linking the return of the bonds to an inflation index, the bonds are always guaranteed to earn a fixed rate above the inflation rate. They are a sort of hybrid between Treasury Inflation Indexed bonds (which are issued as marketable securities) and EE bonds. I bonds can be purchased at banks where EE bonds are currently sold or electronically. They are available in \$50, \$75, \$100, \$200, \$500, \$1,000, and \$5,000 denominations. You can purchase up to \$5,000 per Social Security number per year.

Money Market Funds

In a money market fund, your investment is pooled with that of other investors. The resulting fund is invested in a diverse portfolio of short-term debt securities. Money market funds offer a high level of safety and moderate income.

Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in money market funds.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Interest-Bearing Checking Accounts

These accounts combine the interest-earning capability of a savings account with the check-writing convenience of a checking account. They are offered through many banks, savings and loans, and credit unions. Some charge a fee if you fail to maintain a minimum balance.

Treasury Bills

Treasury bills are literally short-term loans to the federal government. They are sold at a discount off their face value in maturities of three months, six months, and one year. The interest on Treasury bills is exempt from state and local income taxes. Treasury bills are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. The principal value will fluctuate with changes in market conditions and, if not held to maturity, T-bills may be worth more or less than their original cost.

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