

THE CURRENT INTEREST RATE ENVIRONMENT

- Interest rates have been declining, with more cuts expected—money market and CD rates are falling
- High-yield savings accounts that were paying 5% are now dropping below 4% and trending lower
- **The question:** What do we do with cash that's been sitting in CDs or money market accounts?
- The answer depends on **when you need the money** and **what purpose it serves**

MATCHING INVESTMENTS TO YOUR TIME HORIZON

- **Money needed within 6 months:** Keep it where it is—no interest rate is worth putting this money at risk
- **6 months to 2 years:** Look for options that provide some interest without market risk—treasury bills, short-term bonds
- **Beyond 2 years:** Consider dividend-producing investments, equity income strategies, or other growth-oriented options
- Always maintain an **emergency fund**—typically 3 months of living expenses in accessible savings

TREASURY BILLS & BONDS

- **State tax-free:** Interest from treasuries is exempt from state income tax—only federal tax applies
- **More flexible than CDs:** Can be purchased and sold on the secondary market; you can target specific maturity dates
- **Tax timing control:** Zero-coupon treasuries allow you to defer income recognition—buy at a discount, receive full value at maturity
- Treasuries are backed by the U.S. government—as safe as investments get

TREASURY LADDERING STRATEGY

- **What it is:** Purchasing treasuries with staggered maturity dates to maintain liquidity while earning interest
- **How it works:** Buy 3-month, 6-month, and 9-month treasuries—as each matures, reinvest at the longest end of the ladder
- Provides regular access to funds without locking everything up for extended periods
- **Trade-off:** Reinvestment risk—when rates drop, you may reinvest at lower rates

MUNICIPAL BONDS

- **Tax advantage:** Interest is typically exempt from both federal and state income tax
- May offer better after-tax yields depending on your tax bracket
- **Important caveat:** Municipal bond income can still affect your modified adjusted gross income (MAGI), which impacts Medicare premiums and other calculations

ESSENTIAL TAKEAWAYS

- ✓ **Start with purpose:** What is the money for, and when will you need it?
- ✓ Keep **6 months of expenses** accessible—don't chase yield with emergency funds
- ✓ **Treasury bills** offer state tax-free interest and more flexibility than CDs
- ✓ **Laddering** provides liquidity while still earning interest
- ✓ **Municipal bonds** may improve after-tax returns for higher tax brackets
- ✓ Dividend stocks offer income but carry market risk—don't get stuck in a losing position
- ✓ Most investments offer **2 of 3:** growth, protection, or liquidity
- ✓ Don't wait for the "perfect" time—markets often rise before it feels safe to invest

Action Item: Review your cash holdings and CDs—are they still earning competitive rates? Schedule a conversation to explore your options.

DIVIDEND-PAYING STOCKS

- Generate income, but come with market risk
- Qualified dividends may be taxed at lower rates than ordinary income
- **Caution:** If the stock price drops significantly, you may be stuck holding a loss
- Look for companies that increase dividends over time to keep pace with inflation

REITS & OTHER OPTIONS

- **REITs** (Real Estate Investment Trusts) produce income backed by real estate assets
- May become more attractive as interest rates continue to decline
- **Fixed index annuities** can lock in rates but limit liquidity to around 10% per year

RISK MANAGEMENT CONSIDERATIONS

- **The trade-off triangle:** Growth, protection, and liquidity—most investments only offer two of the three
- Determine what's most important for each portion of your money and invest accordingly
- Diversification across asset types helps mitigate downside risk—when the market falls, everything tends to move together
- **Don't wait too long:** When rates fall, markets typically rise—if you wait until it "feels" safe, you may have missed the opportunity

WATCH OUT FOR AUTO-RENEWING CDS

- CDs often auto-renew at lower rates if you're not paying attention
- Review your CD rates regularly to ensure they remain competitive
- Consider whether treasuries or other options might offer better flexibility and comparable returns

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