

Ladder Your Way to Better Returns

Term deposits are short on excitement, but long on peace of mind. If you're looking for a secure investment with a guaranteed rate of return they're hard to beat.

The trouble? Interest rates are unpredictable and that makes investing in term deposits tricky.

Go for a shorter period, say 1 year, and you could miss out on higher rates available from locking up your money longer. Take a 5-year term instead to get a better interest rate and you can lose out if rates start to rise. And, as anyone who's had a deposit mature lately knows, you always face the risk of renewing at a lower, perhaps a much lower, rate.

Luckily there's a simple way to get more out of term deposit investing. It's called laddering.

How Laddering Works

When you ladder your term deposits you start by spreading your money in equal parts, or 'rungs', across a range of terms, say from 1 to 5 years.

A year from now when the first rung on your ladder matures, you reinvest those funds in a new 5 year term. You repeat this process year after year. As each term comes due you reinvest. If you're nervous about rates going up sooner you can build a shorter ladder, for three or maybe four years.

The Benefits of a Ladder Strategy

Laddering your term deposits is a smart way to help maximize your returns while managing the ups and downs of interest rates. Here are three key benefits.

Capture higher rates. When you stagger the maturity dates of your investments, some of your funds are always invested in longer terms, usually at higher interest rates. If rates rise, you'll have cash each year from a maturing term to reinvest in your ladder.

Protect investment return. Because only a part of your holdings mature annually, you keep the interest rates you have on the bulk of your money. Invest in a single term deposit instead and you risk your entire investment rolling over at lower rates, all at once.

Add flexibility. As each rung on your ladder comes due you can take some of the cash to use elsewhere.

No matter how you invest, you have the security of knowing any term deposits held at TCU Financial Group are guaranteed without limit by the Credit Union Deposit Guarantee Corporation.

