



White Paper #1

An authoritative guide designed to help board members make educated decisions.

The CD Laddering Strategy

For Community Associations

CASH FLOW:

With CD rates so low, why should we purchase a 2-year CD?

The reasons for purchasing any CD should have little to do with the current interest rate environment. When making an investment decision for your community association, board members should first consider when the money will be needed. The association's Reserve Study is your primary source for determining anticipated cash-flow from the Reserves. It may not make sense to lock funds into longer term CDs if you anticipate spending that money sooner on roofs, streets, etc. Your current investment maturity schedule should also be considered; if you already have plenty of money maturing in 6 and 12 months, do you really want to purchase an additional 6-month CD?

RISKS:

Credit Risk is the risk of losing money due to a bank failure. CDs should be purchased in amounts under the current FDIC limit of \$250,000 so that both principal and *accrued interest* (interest earned but not yet paid) are covered by the FDIC.

Reinvestment Risk is the risk of an investment maturing during a period in time when CD rates are less favorable than when the CD was purchased. This risk can be reduced by staggering the maturities of the CDs in your reserve account (laddering).

Interest Rate Risk results when, after having purchased a CD, interest rates begin to rise. This makes your existing CD(s) less attractive and locks in money that could have otherwise been used to purchase new, higher yielding CDs. Again, this risk can be reduced by laddering your CDs.

SUMMARY:

By laddering the maturities of the CDs, funds will be available periodically to pay for capital items or to be reinvested at the current rates. Typically, reinvestment would be made at the end of the ladder. For example, in a CD ladder with 6, 12, 18, and 24-month CDs, you would reinvest in a 2-year CD every six months as the next CD matures. This means that, over time, the portfolio has the yield of a 2-year CD but without having to lock up all of the funds for the entire two years. If rates increase, the next maturing CD can be reinvested at a new, potentially higher yield. If rates decrease, some money will be locked up in longer term CDs at attractive rates. In this way, you are hedging against interest rate fluctuations.

Having a laddered CD portfolio of 6, 12, 18, and 24-month CDs is similar to dollar-cost-averaging. This conservative strategy allows you hedge against rising interest rates, potentially capture a higher yield than one would earn with shorter maturities under normal conditions, and still have liquidity with CDs maturing every six months.

For more information contact us at dave@lynnwm.com

8100 Paseo Del Ocaso, Suite C, La Jolla, CA 92037

Phone (858) 529-1951 Fax (858) 529-1951 LYNNWM.COM

Securities and advisory services offered through Prospera Financial Services, Inc., Member FINRA, SIPC



LYNN WEALTH MANAGEMENT
RESERVE FUND MANAGEMENT

CDs are insured by the FDIC, an independent agency of the U.S. Government, up to a maximum of \$250,000 (including principal and accrued interest) for all deposits held in the same insurable capacity (e.g. individual account, joint account, IRA etc.) per CD depository. Investors are responsible for monitoring the total amount held with each CD depository. All deposits at a single depository held in the same insurable capacity will be aggregated for the purposes of the applicable FDIC insurance limit, including deposits (such as bank accounts) maintained directly with the depository and CDs of the depository. For more information visit the FDIC website at www.fdic.gov.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

The views expressed herein are those of the author and are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

8100 Paseo Del Ocaso, Suite C, La Jolla, CA 92037

Phone (858) 529-1951 Fax (858) 529-1951 LYNNWM.COM

Securities and advisory services offered through Prospera Financial Services, Inc., Member FINRA, SIPC