Financial Insight

Security For Generations

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Interest Rates on Safe Money

by Bryan Vancura

When it comes to managing personal finances, there are several options for keeping money safe and earning a competitive return. Common options we've been discussing with clients lately are traditional savings accounts, certificates of deposit (CDs), high-yield savings accounts, and money market mutual funds. While each offers a place to deposit and store money, they have several key differences that can affect the amount of interest earned.

Due to the low interest rate environment we were in for most of the last decade, the conversation was short and simple – cash simply didn't earn much no matter which of these you chose. However, beginning in 2022 and especially now, that conversation has grown longer. Hopefully this summary will be helpful in making sure that you are receiving the benefits of higher interest rates and not just the consequences.

A savings account is a deposit account offered by banks and other financial institutions. Deposits in a savings account are FDIC-insured up to $250,000 per depositor per institution. Savings accounts typically offer a low interest rate (although they're getting better!) but they are generally considered to be a safe and stable place to keep your money. Savings accounts typically have limitations on the number of withdrawals or transfers you can make each month.

A CD is a savings product that earns interest for an agreed upon, fixed period. Most investors are familiar with how CDs work, but a key difference between this and your savings account is that the money must remain untouched for the entirety of the term, or you could risk penalties or lost interest. CDs typically offer higher interest rates than your savings account as an incentive to remain invested for the agreed upon term. CDs are FDIC-insured.

A high-yield savings account might be offered by your primary bank or a variety of online banks in today's world. This type of account will offer a higher rate of interest than your normal savings account (sometimes 10 to 12 times as high) but sometimes will require a minimum balance be maintained to qualify for the higher rate of return. High-yield savings accounts are FDIC-insured.

A money market mutual fund is a type of mutual fund that invests in short-term, low risk securities such as government bonds and other highly liquid investments. Money market mutual funds are not FDIC-insured, but they are typically considered to be a low-risk investment option. Depending on the environment we are in, money market mutual funds can offer higher yields than savings accounts, CDs, and high-yield savings accounts, but as a mutual fund they may also charge fees and require a minimum investment. As I write this, both Charles Schwab and Fidelity offer money market mutual funds that yield over 4.60%, a drastic change from 1 year ago.

In summary, as an investor, you have several choices to store your cash that are safe and reliable. If you have cash beyond a 3–6-month emergency fund saved in your bank, please take time to confirm you are being paid competitive market rate interest. Ultimately, the choice between a savings account, CD, high-yield savings account, and a money market mutual fund will depend on your financial goals, liquidity needs, and risk tolerance. Please reach out to your advisor if you have questions about these options.

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AI Ransom Scams: How to Avoid

Advancing technology, such as artificial intelligence (AI), brings a host of benefits and risks. While we are seeing stories of how AI can make our lives easier, we are also seeing instances where scammers are using it to trick people into handing over their money. We wanted to highlight one example as a reminder to be cautious.

A recent news story came out about a mother who was tricked into believing her daughter had been kidnapped due to scammers using AI to imitate her daughter's voice. Stories like these can be unsettling, but below are some helpful tips on how to avoid falling victim to AI ransom scams.

- Create a family "password." If someone calls and says they've kidnapped your loved one, you can tell them to ask the loved one for the "password."
- If you get a ransom call and there is someone else in the house, ask them to call 911 and urge the dispatcher to notify the FBI.
- Be very wary providing any financial information over the phone. Scammers often demand ransom via wire transfers, cryptocurrency, or gift cards.
- Most importantly, don't fully trust the voice you hear on the call. If possible, have a family member or someone in the room attempt to get ahold of the alleged loved one in trouble.
- If possible, avoid sharing your phone number online or on social media.

We welcome your thoughts, comments and suggestions regarding our newsletter.
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