

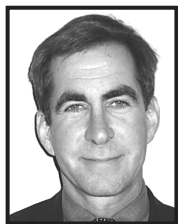
# The Colorado Springs Business Journal

MARCH 4, 2005

## Free money

I'm not a fan of keeping too much of one's net worth in cash, maybe because it seems to me only slightly better than stuffing it into a mattress.

Yet it never fails to amaze me how people will settle for an average yield money market account. I've seen lots of individuals with several hundred thousand dollars earn less than 0.5 percent year after year. If you have a significant amount of cash and don't want to take more risks with that money, I'm going to show you how to earn what could be thousands of dollars a year in extra return.



**ALLAN  
ROTH**

And if you are willing to convert some of your cash to near cash, I'll show you how to earn even more. Though I typically focus on long-term strategies, this column will be about earning more, starting today! Read on for some of that low hanging fruit I've mentioned before, and see how you can pick it.

First of all, a money market account and a certificate of deposit (CD) should be pretty close to a commodity. If the account offers FDIC insurance, it's backed by the full faith and credit of the good ol' U.S. Government. If done correctly, you can get several hundred thousand dollars worth of this FDIC insurance at each institution you bank at.

### Pick a High Yielding Account

If you or your business needs to have large amounts of cash on hand, make sure that the cash is working hard for you.

I know you may be saying that rates are low everywhere, but this is what makes finding the best rate even more important. As of the date of this writing, the average money market paid a 0.55 percent annual percentage yield (APY) while Capital One Bank in McLain, Va., had a money market with a 2.60 percent APY.

What's the big deal? Well on a \$100,000 account, that difference amounts to more than \$2,000 a year. Not bad for an hour's work to set it up, wouldn't you say? I have ground down many a molar thinking of people clipping coupons and driving across town to save five bucks, yet leaving a fortune in cash earning little or no interest.

It's really easy to set up an account over the Internet or by telephone.

But if you want to keep your money local and meet with a live banker, Key Bank has

money market accounts paying a 2.40 percent APY for a \$50,000 minimum and 2.50 percent APY for amounts over \$100,000.

Iris Clark, Key Bank vice president of Business Banking, recommends reversing the process that most people use in managing cash. Instead of depositing income into a checking account, deposit into an interest-bearing money market account.

Cash can easily be transferred online from the money market to a regular checking to pay monthly expenses. This maximizes the interest gained and avoids accidentally accumulating higher balances in the checking account that do not bear interest.

### "Near Cash" is Much Better than Cash

Now why am I not a fan of keeping too much cash, I mean besides that mattress thing?

Because even earning 2.60 percent, you are virtually guaranteed, after taxes, to be earning less than inflation. That means, in real terms, your money will be worth less tomorrow than it is today.

Such a deal, right? So you want to minimize the cash you have and look for ways to juice up your yields while taking only a tad more risk. And I'm not talking about default risk, I'm talking about interest rate risk.

For years, the "experts" have wrongly predicted that long-term rates will rise though we can't always count on them being wrong. Applying a little financial physics, when inter-

*Continued*

## MAKING YOUR CASH WORK HARDER



### MYTH

### REALITY

All institutions pay about the same rate.

Some institutions pay more than 3 times that of other institutions – both being backed by US Government agencies. You could be talking about earning thousands more per year.

Laddering CDs is the best way to earn higher rates and have earlier access to some of your cash.

High paying CDs with low early withdrawal penalties is a far better strategy, irrespective of what happens to interest rates.

Brokers with access to thousands of CDs will find the highest rates.

The institutions paying the highest rates almost always work directly with the customer, which is why they can afford to pay the highest rates.

Big investors have access to better rates.

The FDIC and NCUA create a guarantee that has far more value to the small investor and gives them access to better rates for government guaranteed accounts.

FDIC and NCUA insurance is limited to \$100,000.

Structured correctly, individuals can get several hundred thousand dollars of insurance per institution and can get a virtually unlimited amount of insurance by using multiple institutions.

SIPC (Securities Investment Protection Corporation) insurance is as good as the FDIC or NCUA.

The SIPC is a private non-governmental institution with reserves only slightly in excess of \$1 billion. The FDIC and NCUA are backed by the U.S. Government.

The good old days were back in the early eighties when you could get glorious double digit earnings on your money markets and CDs.

After inflation and taxes, our real return was significantly negative in those "good old days." Times are much better today with low interest rates and low inflation.

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est rates head up, the value of our bonds will fall.

In order to juice up the yields, I'm partial to certain types of five or 10-year CDs, which pay more than treasury bonds. How can five-year CDs be called "near cash?"

Well many institutions carry only a simple six-month early withdrawal penalty. With such an institution offering a low penalty, it often works out better to open a long-term CD and cash it in before maturity paying the penalty, than opening up a shorter-term CD.

For example, I searched the local landscape to find a combination of a high paying institution with a six-month simple interest penalty, and found Safeway Rocky Mountain Federal Credit Union.

It's an institution anyone can join<sup>2</sup> and is backed by the NCUA, a U.S. government agency. It currently is paying a 4.80 percent APY for a five-year jumbo on a \$100,000 minimum.

If you needed the money in a year or two, even after paying the penalty, you would still earn 2.45 percent after one year and 3.67 percent after two years. Curiously, the credit union's own two-year jumbo CD yields less than this 3.67 percent return.

If after two years you still don't need the money or interest rates haven't shot up, as all the experts believe, you can continue earning 4.80 percent. You can think of it as a two year CD earning 3.67 percent with an option to earn 4.80 percent for up to three additional years.

And if you don't happen to have a hundred grand lying around, the credit union pays a 4.65 percent APY with as little as a \$500 account.

What does this mean to you? It means that the conventional wisdom of laddering CDs is far inferior to buying all long-term CDs with low withdrawal penalties. You get both higher rates and more flexibility on withdrawing the funds.

Finding institutions willing to pay you

more is not as simple as calling your advisor.

Almost all of these high paying institutions don't pay commissions, which is, of course, why they can afford to pay higher rates. I've found the best place to get rates for banks quickly is [www.bankrate.com](http://www.bankrate.com).

Credit Unions often pay even better rates but are more difficult to find. I suggest going to [www.creditunionsonline.com](http://www.creditunionsonline.com). If you go the CD route, make sure you read the fine print, especially on the early withdrawal penalty.

So in conclusion industrious readers, an hour's worth of work can make you an extra few thousand dollars a year when it comes to finding a high paying money market account.


If you want more, and I'm all about finding

a way to get more, look for near cash opportunities with high yields and low withdrawal penalties. Then you can sit back with that big basket of low hanging fruit you have picked, and enjoy the extra earnings.

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Note: <sup>1</sup>Bankrate.com <sup>2</sup>Requires a \$5 fee to join Consumer's United Association and a \$5 minimum deposit.

## SHOPPING FOR HIGH PAYING CERTIFICATES OF DEPOSIT

I N T E R E S T  R A T E	H I G H	FAIR	 SWEET SPOT
	L O W	AVOID	FAIR
		HARSH	EASY

### EARLY WITHDRAWAL PEALTY

NOTE: Make sure the account is guaranteed by a U.S. Government agency.