Your *Trust* Matters

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Chances Are, You Aren't Taking Advantage of This Basic Cash Strategy

Regardless of the interest rate environment, laddering maturities of your cash alternatives is a technique I've come to believe is one of the easiest-to-understand but least utilized cash management strategies. I've been explaining it for nearly twenty-five years, but it often gets overlooked.

What is a ladder? When it comes to cash alternatives, a ladder means that you stagger the maturities of the alternatives so you can take advantage of longer terms with higher rates, meet future cash needs, and maintain flexibility for future reinvestments.

Here's an example:

- $50,000 CD maturing 9/1/2023
- $50,000 CD maturing 9/1/2024
- $50,000 CD maturing 9/1/2025
- $50,000 CD maturing 9/1/2026
- $50,000 CD maturing 9/1/2027

In practice, it will look a little different – your CD amounts may include accrued interest and don't have to be perfectly even amounts as you build your ladder, and it's often better to be a little flexible in choosing your CD terms so you take advantage of the most attractive rates and terms to "fill" your ladder. Based on your circumstances, you also may want to have smaller CDs maturing more frequently rather than annually.

No matter the specifics, the key elements of a CD ladder are the same:

1. As you build your ladder, you can have longer-term CDs, which typically have higher rates;
2. When you purchase a CD, you shop for the CD that best fits your ladder (not just the interest rate);
3. You have regular liquidity – each year (or whatever interval between CDs), you know you can plan on having cash available if you need it; and
4. Your CDs won't all come due at the same time, so you can prevent your entire cash cushion going up or down with interest rate changes all at once.

Whether rates are going up or down, I believe a CD ladder is a good cash management tool. When rates are going down, a ladder makes sure you don't have everything maturing at the same time, so you tend to hold onto a higher overall yield on your cash for longer than if you have only one CD, or if your whole cash cushion in a savings

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account. When rates are going up, it's human nature to wait before you lock in a rate for a CD because, hey, rates might be higher in 3 months or 6 months or 12 months; using a laddered approach helps people take incremental action to increase their overall yield on cash instead of keeping cash in a low-interest-bearing account while waiting for the "perfect time" to buy a CD.

So why don't more people have a CD ladder? That's a good question—and I don't know the answer! Some people may think that it's too much hassle to manage a ladder, or they just don't get around to doing one. Many of us think of our cash "bucket" and it may be counterintuitive to break that into smaller amounts spread out over a period that mirrors our potential cash needs. What I do know is that once you shift your mindset a little bit, a CD ladder is easy to build and maintain.

A CD ladder is a good fit for short-term and intermediate-term cash and can help people feel more comfortable knowing that they have alternate sources of cash when there is a lot of market volatility—and having good cash flow and some cash reserves is an important element of any good long-term plan.

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