Bank CDs for Retirement?

Pursestrings

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
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Dear Friends,

We are happy to send you our first issue of *Pursestrings*, a (usually) weekly note whose aim is to promote financial well-being among our retirement plan participants. Feel free to send us comments or suggestions for future topics around money, happiness, spending and saving as they relate to your sense of well-being and material comfort.

DEAR PURSESTRINGS: My investment advisor advised me to sell my Credit Union Certificate of Deposit (CD) in my Roth IRA and invest the proceeds in a mix of stocks and bonds. She says that after inflation CDs gain very little. She also said that stocks and bonds have short term pricing risks, but over a life cycle of retirement savings and withdrawals they will get me farther toward my retirement income needs than CDs from banks and credit unions. Should I follow her advice? -– LANA LOVEGOOD

DEAR LANA: Your advisor is correct. You should match your saving to the time period in which you are likely to begin drawing down your funds. Stocks and many bonds are long duration investments. They work best over decades, not just a few years. Stock volatility disappears the longer you hold them. Bank and Credit Union CDs have a principal guarantee and are highly useful for short-term (a few months to a few years) saving. Stocks have no such guarantee, but if you stick with quality dividend paying companies and add bonds (like CDs but with floating prices) to reduce stock volatility to your comfort level, the result will exceed that of CDs if you are judicious in selection and patient in holding.

Principle: Match savings and investments not only to your tolerance for risk and uncertainty, but to the time horizon of your investment before you will begin to draw it down.

Final thought: It's better to save with CDs than not to save at all!