SIEBERT

INTRODUCTION TO:

Certificates of Deposit & Money Market Funds

Certificates of
DEPOSIT

Definition:

Traditional Certificates of Deposit (CDs) are comparatively low-risk certificates issued by banks and other financial institutions. Returns on CDs vary based on the amount invested, the length until maturity, current interest rate environment, and the attributes of the bank offering the instrument. Principal of the underlying amount invested is generally FDIC insured within the limits set forth by the FDIC. CD terms generally range from 3 months to 10 years.

RISKS

- Once the money is invested in a certificate of deposit, it is usually unavailable for use until the CD matures. Interest rates can change over time and if they rise, an investor will have lost the opportunity to invest in an instrument with higher returns.
- Many CDs have early-withdrawal penalties. If an investor needs the cash invested, a penalty is charged that can reduce the overall return of the investment.

Reasons to Invest

☑ **1. Low-Risk:** Principal is generally 100% covered by FDIC insurance within limits.

☑ **2. Yield:** Due to the relatively higher risk of investing in bank CDs to US Treasuries, one can often gain a relatively higher yield.

☑ **3. Maturities:** The availability of CDs allows you to invest with laddered maturities with the goal of offsetting interest rate risk should interest rates change.

Market Linked CD'S

DEFINITION

A Market-Linked CD (MLCD) has the same safety and security of a traditional certificate of deposit with the added ability to participate in the equity markets. Rather than paying a fixed rate of interest, MLCDs pay a return at maturity based on the performance of a market index, commodity index, or a basket of foreign currencies. They are generally issued for terms ranging from one to ten years with offerings available for a limited time each month. Additions are not permitted to closed offerings.

BENEFITS

MLCDs have a guaranteed principal protection and are FDIC-insured to allowable limits when held to maturity. Some will pay a minimum return at maturity even if the index is down.

MLCDs are best for investors who want to participate in the equity market, yet want to ensure their principal is protected even if the market declines.

Drawbacks

LIMITED LIQUIDITY

The funds invested in an MLCD cannot be accessed prior to maturity.

ANNUALLY TAXED INTEREST

In taxable accounts, the interest is declared annually and taxed each year as ordinary income even though that interest isn't actually paid until maturity.

CAPS ON RETURN

Many MLCDs have caps on return, meaning the gain you earn may not be as substantial as the increase in the underlying index.

NO COUPON

There is no coupon and the investor will not receive periodic income. Investors with current income needs should not invest in MLCDs. Make sure you discuss your liquidity and income needs with your Financial Advisor prior to investing in MLCDs as they are not suitable for all investors.

EARLY SALE IS NOT FDIC-INSURED

MLCDs are long-term investments that if sold prior to maturity could result in a significant loss. The loss incurred from a sale prior to maturity is not FDIC-insured.

Money Market FUNDS

Definition

Money Market Funds are Investment Companies (Mutual Funds) that invest in highly liquid securities. They seek to maintain a constant $1 value, but they are not FDIC insured and an investor can lose money if the value of the fund falls below $1/share. Money Market Funds are generally covered under SIPC within limits.

Benefits

Money Market Funds often pay higher rates than bank deposits. However, Money Market Funds carry the relative risk of the securities in the fund. They allow an investor to achieve gains from relatively low-risk securities that are often individually unattainable due to high initial investment requirements (i.e. $1M for negotiable CDs). Many funds offer features that allow one to invest automatically (auto-sweep accounts) after a relationship with the fund is established. There are a variety of funds available to invest in offering different yields. Many funds invest only in particular securities (i.e. US Treasuries only), offering potential tax advantages to the investor. Unlike Certificates of Deposit, Money Market Funds generally have no holding periods and funds are readily available without incurring early-withdrawal penalties.

RISK CONSIDERATIONS

CD'S

- 100% FDIC Insured (within limits)
- Higher yield with equal protection of bank deposits
- Penalties for early withdrawal
- Ability to ladder maturities to hedge interest-rate risk

MONEY MARKET FUNDS

- Covered by SIPC (within limits)
- Higher yields than traditional savings accounts
- No time restrictions
- Auto-journal and potential tax advantages for the investor.
- Not FDIC Insured - principal value may be lost

Fun Facts

While traditionally issued by banks, CDs and Money Market Funds are now offered by many other investment companies.

Money Market Funds are a specific type of Mutual Fund that is required by law to hold only low-risk securities.1

Negotiable CDs typically trade in $5 million denominations.

1. http://www.sec.gov/answers/mfmmkt.htm

Disclaimer

Information about the investment products contained in this booklet is solely for informational purposes and does not constitute a specific recommendation of either an offer to sell or the solicitation of an offer to buy any investment. Any specific investment terms are indicative only and may not reflect an actual investment that is, or will be, available for purchase from Siebert Financial Corp. The information herein is not, and is not intended to be, a complete discussion of all material information you should know about any investment or investment class. You should carefully read the relevant prospectus and related supplements or other offering documents prior to making a purchase. You should not rely on the information contained in this presentation in connection with the purchase of any investment product.

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