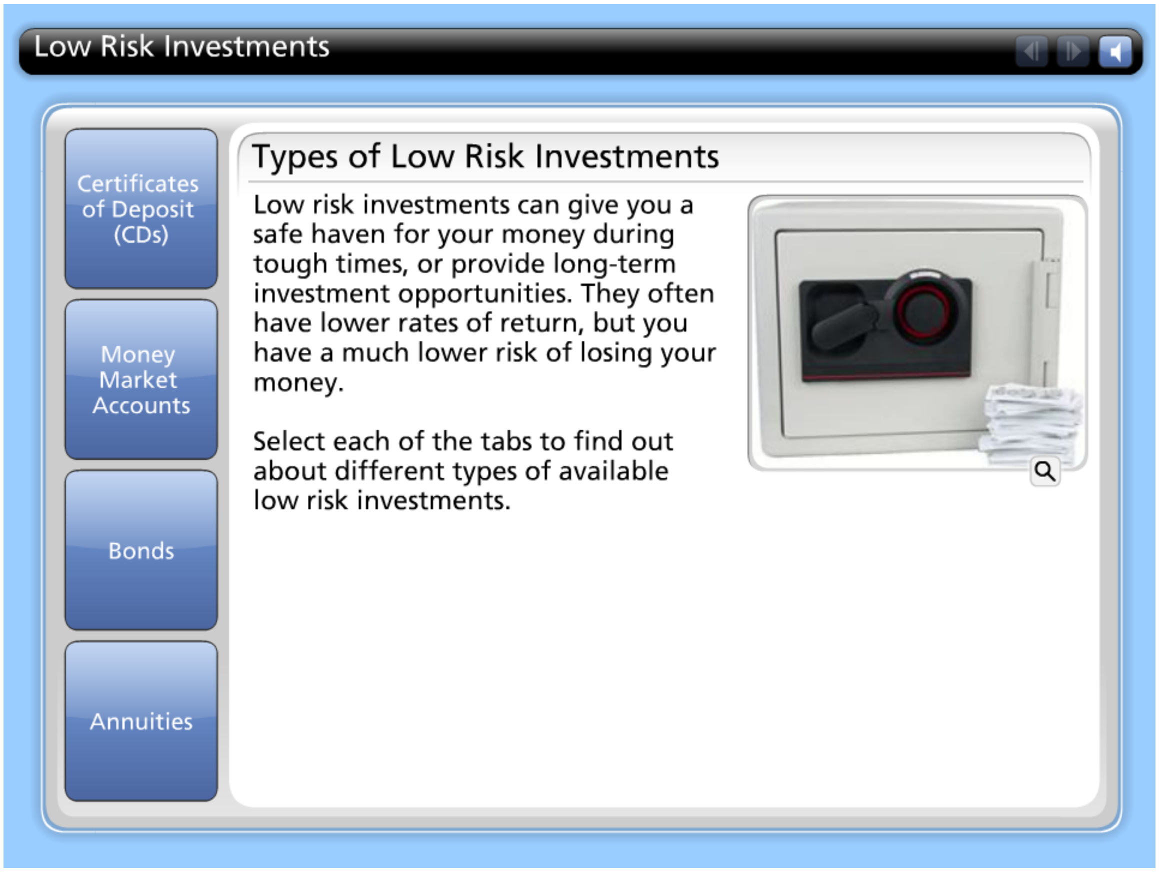
Low Risk Investments

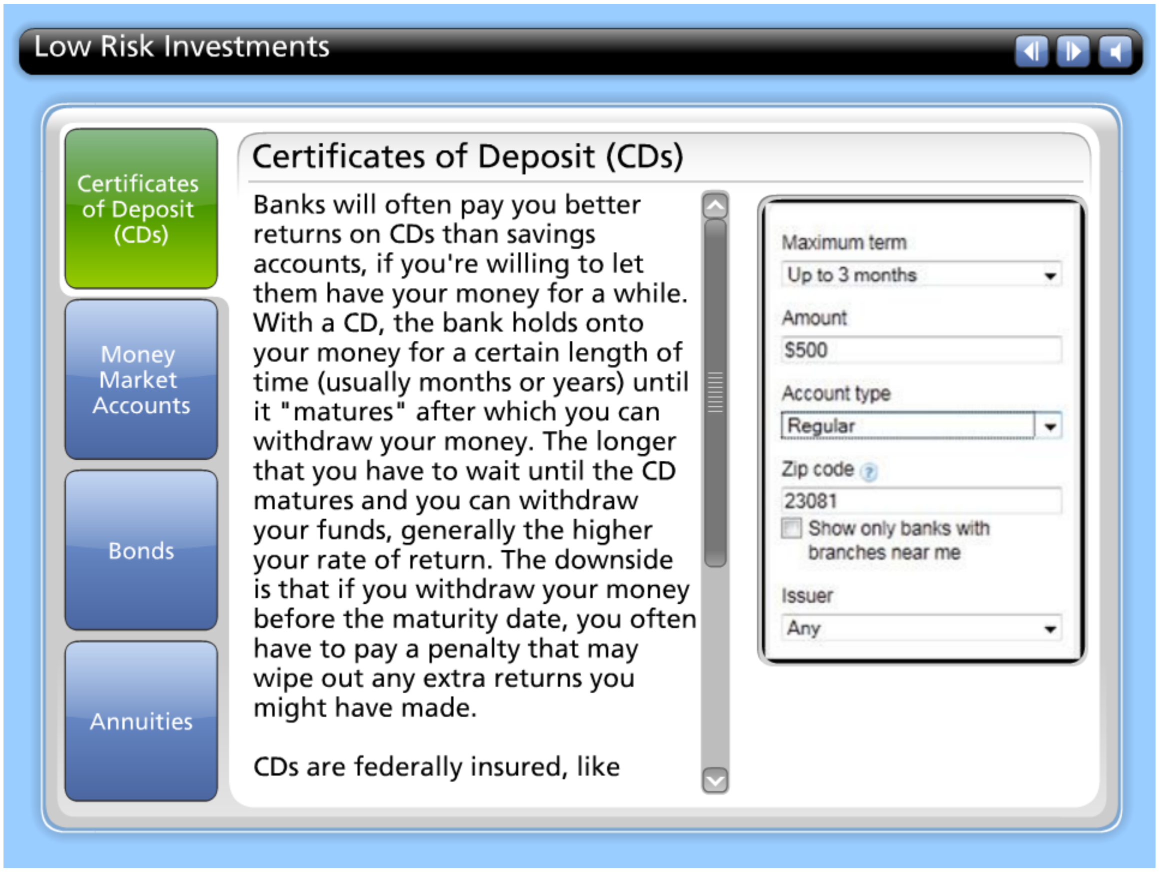
Types of Low Risk Investments



Low risk investments can give you a safe haven for your money during tough times, or provide long-term investment opportunities. They often have lower rates of return, but you have a much lower risk of losing your money.

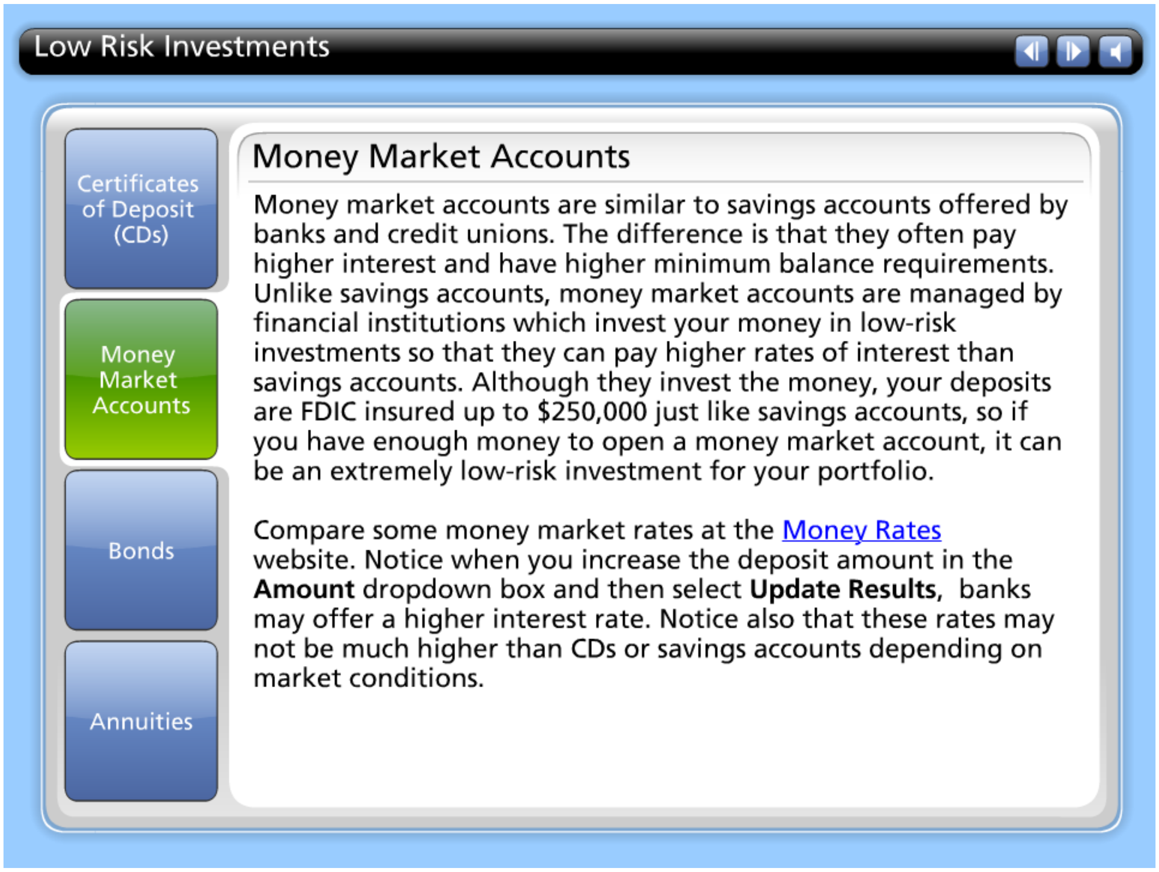
Select each of the tabs to find out about different types of available low risk investments.

Certificates of Deposit (CDs)



Banks will often pay you better returns on CDs than savings accounts, if you're willing to let them have your money for a while. With a CD, the bank holds onto your money for a certain length of time (usually months or years) until it "matures" after which you can withdraw your money. The longer that you have to wait until the CD matures and you can withdraw your funds, generally the higher your rate of return. The downside is that if you withdraw your money before the maturity date, you often have to pay a penalty that may wipe out any extra returns you might have made. CDs are federally insured, like savings accounts, so they are some of the lowest-risk investments.

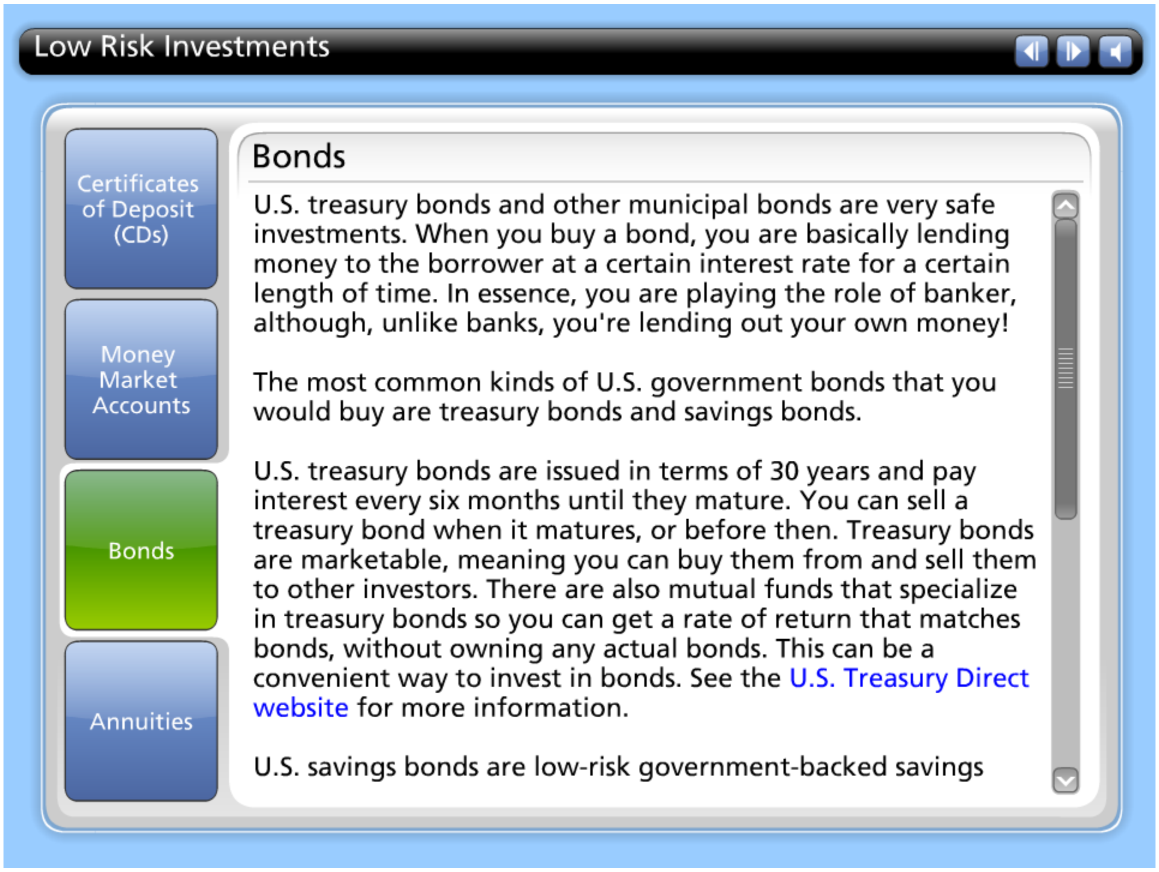
Money Market Accounts



Money market accounts are similar to savings accounts offered by banks and credit unions. The difference is that they often pay higher interest and have higher minimum balance requirements. Unlike savings accounts, money market accounts are managed by financial institutions which invest your money in low-risk investments so that they can pay higher rates of interest than savings accounts. Although they invest the money, your deposits are FDIC insured up to $250,000 just like savings accounts, so if you have enough money to open a money market account, it can be an extremely low-risk investment for your portfolio.

Compare some money market rates at the Money Rates website. Notice when you increase the deposit amount in the **Amount** dropdown box and then select **Update Results**, banks may offer a higher interest rate. Notice also that these rates may not be much higher than CDs or savings accounts depending on market conditions.

Bonds



U.S. treasury bonds and other municipal bonds are very safe investments. When you buy a bond, you are basically lending money to the borrower at a certain interest rate for a certain length of time. In essence, you are playing the role of banker, although, unlike banks, you're lending out your own money!

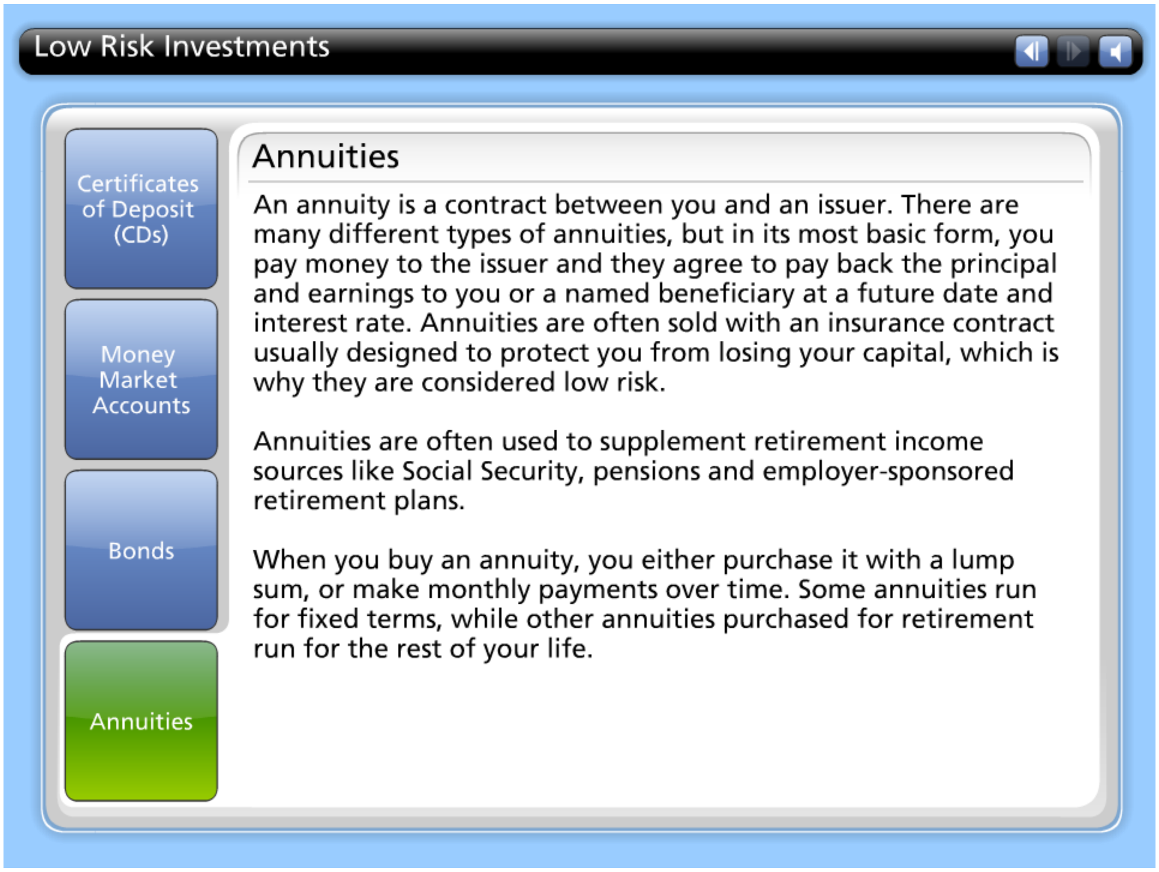
The most common kinds of U.S. government bonds that you would buy are treasury bonds and savings bonds.

U.S. treasury bonds are issued in terms of 30 years and pay interest every six months until they mature. You can sell a treasury bond when it matures, or before then. Treasury bonds are marketable, meaning you can buy them from and sell them to other investors. There are also mutual funds that specialize in treasury bonds so you can get a rate of return that matches bonds, without owning any actual bonds. This can be a convenient way to invest in bonds. See U.S. Treasury Direct website for more information.

U.S. savings bonds are low-risk government-backed savings products that pay interest on your money. Savings bonds are assigned ownership when you buy them, and they can't be sold or even given to someone else. You can buy them for someone else. They provide a fixed rate of return, so you know what they'll be worth in the future when you redeem them. See the U.S. Treasury Direct website for more information about savings bonds. Check the rate for EE savings bonds on this page. Do they look like a good investment to you? You can check other rates on the Treasury Direct website.

Corporate bonds are not low-risk investments because a company can declare bankruptcy. If that happens, you might get your investment back, but you might not.

Annuities



An annuity is a contract between you and an issuer. There are many different types of annuities, but in its most basic form, you pay money to the issuer and they agree to pay back the principal and earnings to you or a named beneficiary at a future date and interest rate. Annuities are often sold with an insurance contract usually designed to protect you from losing your capital, which is why they are considered low risk.

Annuities are often used to supplement retirement income sources like Social Security, pensions and employer-sponsored retirement plans.

When you buy an annuity, you either purchase it with a lump sum, or make monthly payments over time. Some annuities run for fixed terms, while other annuities purchased for retirement run for the rest of your life.