

Save Smarter: The Upside Of Cds, Savings Accounts, And Money Market Accounts

As safe investments go, cash is hard to beat. A well-allocated investment portfolio of stocks and bonds should also include cash, as it's important for both an emergency fund and to meet short-term goals. There are many options for you to save smarter with cash investments, including savings accounts, money market accounts, and certificates of deposit (CDs).

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As you consider savings strategies to help maximize the earnings from cash investments, here's a quick overview of these three types of bank accounts.

Savings Accounts

What is a savings account?

A deposit account that earns interest. While the rate of interest is relatively low, it can fluctuate over time as interest rates go up or down. So in a rising rate environment, your money has the ability to generate a higher than normal yield.

Advantages

- Unlimited withdrawals, but a limited number of free withdrawals per year
- Low minimum balance requirements
- Low or now fees
- Access to ATMs, mobile, and online banking
- Compatible with electronic transfers

Disadvantages

- Potential for relatively low interest rates

Money Market Accounts

What is a money market account?

An interest-bearing account similar to a savings account, but it pays a higher rate of interest. However, money market accounts come with a limited number of withdrawals per month, making them slightly less liquid than a savings or checking account.

Advantages

- Relatively high rates of interest compared to savings accounts
- Ability to write checks, make ATM withdrawals and conduct online and mobile banking transactions including transfers and direct deposits

Disadvantages

- Higher minimum deposit and account balance required to avoid monthly fees
- Limited number of withdrawals per year

Certificates of Deposit (CDs)

What is a [certificate of deposit](#)?

A savings certificate with a fixed maturity date and specified fixed interest rate. To purchase a CD, you must meet a minimum balance requirement and avoid withdrawals for a specified length of time. For example, you might purchase a three-year CD that comes with a minimum \$1,000 deposit.

CDs offer a higher interest rate than savings accounts – and sometimes money market accounts – because your money isn't accessible without penalty until the CD matures. Once the CD's term is complete, you have the option to withdraw the money or roll it over into another CD. Unlike savings and money market accounts, a CD's interest rate is locked in at a set amount for the full term.

Advantages

- Higher interest rates than savings accounts and some money market accounts
- The interest rate does not change during the term of the account
- No fees when you hold your account to maturity, but penalties are incurred with early withdrawal

Disadvantages

- Penalties for early withdrawal
- No access to your funds through checks, ATM transactions or online and mobile banking

Which Should You Pick?

Of these three types of short-term investment accounts, savings and money market accounts are the most similar. A savings account can make the most sense if you have a relatively small balance and want to avoid paying unnecessary fees. But when you have a larger amount of money that you need ready access to, a money market account can be a better choice than a savings account. You just want to make sure you can continuously meet the minimum balance requirements.

CDs offer an alternative way to save your money. These accounts are for those who know how long they will need to save their money, and are willing to trade easy access to their funds for the increased interest they can earn. You should keep in mind that the penalties for an early withdrawal could cost you all or much of your interest.

To learn more about [savings and investment strategies](#) best suited for your financial needs and goals, call us today at 866-762-8392. At PlainsCapital Bank, we have the tools and resources to help your money

go further!