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What should you do with maturing CDs and bonds?

Roll into a new one? Move to stocks? Here's how to decide.

Fidelity Viewpoints

Feedback

Key takeaways

> Reflect on what this money is for—such as whether it's part of your emergency savings, an eventual down payment, your retirement nest egg, or something else.
>
> Once you've assigned that money to a goal, look at what your overall investment mix is for that goal and across all your accounts.
>
> Consider how much access you need to have to this money, and how much risk you can afford to take on in pursuit of potentially higher returns.
>
> Finally, reflect on whether you would rather have a more or less hands-on role in managing this money going forward.

The past year-plus has been an attractive time for CDs and Treasurys. Interest rates have been high in general—and particularly high for short-term CDs and bonds.

But many investors are now seeing their short-term CDs and bonds starting to come due, and are facing the question of what to do with the proceeds. Although picking a new investment choice can be stressful, this can be a great opportunity to take a step back and check in on your strategy for this money (and potentially your broader asset allocation).

Think through these 5 questions to help you come up with a plan for your maturing CDs and bonds.

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1. What is this money for?

How are you planning to eventually use this money? Some examples might include:

- Home purchase
- Safety net
- Child's education
- Retirement

If you already have a plan for this money, you should let that goal dictate what you do with it next. If it's for a child's education, then perhaps you want to move it into a college savings account. If it's for retirement, perhaps you can move it into an IRA. (Be aware of annual limits on IRA contributions.)

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If you don't already have a plan for that money, consider whether you *should*. Do you already have dedicated emergency savings? Do you have high- or moderate-interest debt you should pay down? Should it be earmarked for a down payment or a longer-term goal?

While choosing a goal for your money might sound like an unnecessary extra step, it can actually help make you a better investor. (Learn more about identifying goals.)

2. What is your investment mix for that goal?

Once you have a plan for that money, you can figure out how best to put it to work. Look at the total funds you have earmarked for that purpose, consider your time horizon and risk tolerance for that goal, and look at what your overall investment mix is for that pot of money.

For example, if this is money for a down payment and you expect to purchase a home in the next 1 to 2 years, it might make sense to keep it in short-term CDs or high-quality short-term bonds. If this is part of your retirement nest egg and you have 10 years or more until retirement, you might be able to invest it in a higher-growth-potential (and higher risk) option. Or, if you're nearing or in retirement, perhaps you want to use this money to help create a steady income stream by building a bond ladder or CD ladder.

3. What is your investment mix across all your accounts?

If you add up all your accounts together, what percent do you have invested in stocks, bonds, and cash? If your big-picture asset allocation is lopsided or off balance in any way, then perhaps you can use these funds to help right-size your overall investment mix.

Many investors hold too much in cash and/or in very safe investments like short-term CDs. Keeping lots of money in such options might *feel* safe, but holding too much can hurt your long-term growth prospects and even lead to inflation eroding your wealth. (Read more about the risks of being too safe.)

On the other hand, many retirees and pre-retirees may *need* lots of stable income-generating investments to help reduce portfolio volatility and support their living expenses. There truly is no one-size-fits-most answer to what to do with these funds. For you, the decision should always come back to your goals, needs, time horizon, and risk tolerance.

If you need help then zeroing in on a concrete action plan, read more about how to get your cash invested and how to pick investments. If you're feeling overwhelmed and like this is more than you can tackle on your own, consider some of your options for working with a professional.

4. How much access do you need to have and how much risk can you take on?

Suppose that you've decided to continue holding this money in a fixed income option. In that case, 2 key factors to consider in narrowing down your choices may include how easily you want to be able to access that cash, should you need it, and how much risk you are comfortable taking on (in exchange for potentially greater returns potential).

Some of your options may include:

- **CDs:** CDs are generally very low risk because they are insured by the FDIC up to the limit of $250,000 per person, per institution, per account ownership category. CDs typically lock up investors' principal until their maturity date. Brokered CDs, such as those offered by Fidelity, may be sold prior to maturity, although the price investors receive is not guaranteed and could be lower than the principal amount.
- **Money market funds:** Money market funds are mutual funds that invest in short-term debt securities with low credit risk and yields that tend to closely track changes in the direction of the Fed's target interest rate. Money market funds can offer easy access to your cash, but they are not insured by the FDIC and you could lose money investing in one. (Learn more about money market funds.)

- **Bonds:** Bonds can vary widely in risk and return potential. Treasurys, or bonds issued by the US federal government, generally have very little credit risk. Bonds issued by corporations or municipalities may come with varying levels of credit risk, depending on the creditworthiness of the underlying issuer. Short-term bonds generally have less risk of volatility when interest rates change, but can leave investors exposed to reinvestment risk. Longer-term bonds may experience more price volatility when interest rates change, but could allow investors to lock in relatively high rates for a longer period of time.

Again, there is no one "best" investment to consider—only features and tradeoffs to compare against your goals and needs. (Research fixed income, bond, and CD investment options that may be available to you.)

5. How much control and ongoing maintenance do you prefer?

One more consideration to weigh is how involved you want to be in the management of this money going forward.

If you buy another individual CD or bond, you may need to go through this exercise again when it matures. That might be a welcome prospect if you like to have more involvement in your investments and control over your cash flows. Or it might be a headache if you find it stressful to manage your portfolio.

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For those looking for more hands-off options, a few choices to consider could be:

- **Bond funds or ETFs:** Bond mutual funds and ETFs have no maturity date, meaning your money can potentially stay invested indefinitely. In these vehicles, your money is pooled with that of other investors and a professional manager handles all buying, selling, and reinvestment decisions. Funds and ETFs can be a strong option for those who want fixed income exposure but prefer less involvement in choosing investments. That said, they do come with tradeoffs to understand. (Read more about the differences between bonds and bond funds.)
- **Annuities:** Retirees and pre-retirees who want predictable guaranteed income but would prefer a more hands-off approach might be well served by considering an annuity. At its most basic level, an annuity is a contract between you and an insurance company. But there are many varieties to understand, each of which might fit a different need. (Learn more about the basics of annuities.)
- **Auto Roll Service for CDs and Treasury securities:** Fidelity's Auto Roll Service can allow investors to roll the proceeds from maturing CDs and Treasurys forward into the purchase of new positions, so you don't have to manually choose new investments every time a position matures. It can also be used for certain eligible CD ladder strategies. (Learn more about how the Auto Roll Service works.)

While the number of options may initially seem daunting, considering your needs, goals, and preferences should help you start to zero in on a suitable fit.

Take the next step

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