

## **How Certificate of Deposits (CDs) Work**

If you are looking for a safer way to invest your money with minimal risk, then you should consider purchasing a Certificate of Deposit, also referred to as a CD. CDs work similar to a savings account, but you will normally earn more with a Certificate of Deposit. The interest rates on CDs typically yield a higher annual percentage yield — or APY. Investools.com is a great online resource where you can learn more on the differences between these two types of accounts and which would be better for you to invest your money in.

When purchasing a CD, your bank rewards you by reimbursing you with higher interest. You may be wondering why a bank would do this, but it is actually quite simple. They are hoping that you keep your money in the CD for a specified length of time — giving them the assurance that your funds will remain available for them to use on other services.

Obtaining a Certificate of Deposit is easy. Inform your banking representative that you would like to purchase one or more CDs and they will give you a form with some disclosures for you to fill out and sign. Afterward, they simply transfer your funds into the CD for you. You do not need a real certificate, either, because your Certificate of Deposit will be listed on the slips of your other banking transactions.

Your CD will begin to accrue interest at a certain point and you will start to see it build up. You have the choice to spend that extra money or reinvest it back into your Certificate of Deposit. Many investors suggest that you reinvest your interest back into CDs and watch your money accrue even faster.

Keep in mind, however, that since the risk levels are low on CDs, your interest and rewards may be low, as well. Finally, remember that because the risk level is relatively low, your rewards may also be relatively low. To find out more about how CDs work, visit Investools.com where you will gain a better understanding of which types of investments are best for you.