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Welcome, my name is Andrew Baron and this is, Well… It Depends! The podcast where I address financial decisions that can't be answered with a simple yes or no.

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In this episode I asked the question how to save for short term goals. But before we begin a short disclaimer, this is being recorded on June 20th, 2023. The contents of this podcast are strictly for informational purposes only and nothing said to be taken as investment tax or legal advice is important to consult with the professional before making any financial decisions.

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As the strategies discussed may not be suitable for you specifically. Getting into it. How to save for short term goals? Well… It Depends!

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When it comes to saving, it truly depends on what the goal is, how much it costs, and when you want to achieve it by. Short term goals can be anything from a vacation to a new car to a down payment on a home.

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Saving for these can differ depending on your risk tolerance and time. Today, we'll focus on three specific methods of high yield savings accounts, CDs and bonds.

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Let's begin with high-yield savings accounts. These accounts provide significantly higher interest rates than your checking account, which can help you reach your goals quicker.

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High yield savings accounts are liquid, meaning that you could access your money whenever you need it without penalty. However, there are monthly transaction limitations.

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Rates for these accounts are determined by policy, except by the Federal Reserve, and you should be aware that there may be account minimums to set up or maintain these accounts. This brings us to certificates of deposit, or more commonly called CDs.

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With the CD you agree to lock up your money for a set period of time in exchange for a fixed interest rate. This may be higher than savings accounts, including the high yield savings accounts I was just talking about.

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With the CD, it may be a good fit if you have a firm timeline for your goal and won't need to access the funds beforehand.

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If you do need to withdraw before the term ends, you may be subject to an early withdrawal penalty, which may be a significant portion of the interest you earned.

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Now let's talk about bonds, which can be a little bit more complex.

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Essentially, when you buy a bond, you're lending money to an entity, either a government or a corporation, and they promise to pay you back with interest over a set term.

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Different entities carry different levels of risk, and unlike the previous two categories, there is no FDIC insurance in case of collapse for bonds.

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Instead, you trust to get your money back from whoever you borrowed it from, specifically for short term goals, you should consider short term bonds. These are generally considered low risk but can carry higher returns than either high yield savings accounts or CDs.

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Keep in mind, if you buy individual bonds, you may want to hold them in too maturity to ensure that you get your money back. Selling early may result in loss if the market value has declined. Before we end today's episode, there's one more piece I want to mention that some people might have been considering for short term goals, which is stocks.

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When we talk about the stock market, we're dealing with a certain level of unpredictability. While it is true that over the long-term stocks have performed very well over the short term, it can be incredibly volatile.

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Stocks fluctuate day-to-day, month to month, and year to year. This means that if your goal is only in a few months or just a couple years, you won't necessarily have time. If there's a downturn to recover your funds and instead may have to sell at a loss.

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While long term stocks have provided an ample way for wealth creation, it may not be your best bet for short term goals.

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Instead, for short term goals, the focus should be on capital preservation instead of high returns. To recap, high yield savings accounts can provide good rates of return while remaining liquid in case you need cash now, CD's allow you to lock in money at a fixed rate over a set term.

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Bonds can provide higher rates of return than either of the other categories, but also carries with it a higher degree of risk. Stocks can be part of a well-balanced portfolio, however, may be too volatile for short term goals and instead are better suited for long term growth.

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So, to answer the question how to save for short term goals? Well… It Depends!