



## AUGUST 2018 NEWSLETTER



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## Why Investors Are Buying Step-Up CD's and Market-Linked CD's

By Carol Smith, *Vice President, Institutional Sales*

A traditional CD, or certificate of deposit, is a savings account that has a fixed interest rate and fixed maturity date. Individual Investors and Financial Advisors are buying CDs with structures other than the usual fixed-rate CDs. Why are they buying them? Many offer a potential increase in yield over the traditional fixed rate CD's. With the increase in rates, they are taking closer looks at these types of structures.

### Step-Up CD's

This type of CD offers interest payments that step up incrementally and they are usually callable.

Example:  
2 year maturity  
Wells Fargo CD Maturity 07-31- 20  
2.50% for 1 year  
steps up to 3.00% for 6 months  
steps up to 4.25% for 6 months to maturity  
Callable 07-31-19

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## Market-Linked CD's

These types of CDs offer yields that may be higher than the fixed-rate CDs. Some individuals and advisors are adding them to portfolios to increase diversification and principal protection. They are also a way to utilize current market trends. They are divided into three categories: growth, income, and growth & income.

### Growth

These Market Linked CD's:

- Often linked to following Indexes – S&P 500, Dow Jones, Eurostoxx 50, or 15-20 ETF's
- Selection of maturities ranging from 2 years to 7 years
- Pays the earned rates of participation return at Maturity (called point to point)

Examples:

- Citibank, N.A. Market Linked CD – 5 year maturity linked to S&P 500 Index
- Bank of the West Market Linked CD – 4 year maturity linked to Eurostoxx 50 Index
- JP Morgan Chase Bank Market linked CD – 3 year maturity linked to 20 ETF's – rebalanced monthly by JP Morgan; Exposure to 20 different ETF's with JP Morgan monthly performance review

### Income

These Market Linked CDs:

- Often linked to a Basket of Equities or Basket of ETF's
- Offer a minimum annual interest rates (usually from .050% - 2.00% depending on structure)
- Sometimes offer a Floor (downside) percentage (i.e. -15% downside risk)

Examples:

- HSBC Bank Linked CD – 5 year maturity; Equity Basket – F, MCD, MSFT, NFLX, T; Annual Coupon 0.85% Minimum Plus 9.20% maximum performance rate at maturity, if all equities are higher than the set initial share price
- JP Morgan Chase Bank – DS5 Index - Linked CD – 7 year maturity; Linked to 19 ETF's; Annual Reset Coupon – equal to year over year return of the Index up to 6.00% cap/1% minimum coupon

### Growth and Income

- JP Morgan Chase Bank DS 5 Index – Linked CD – 7 years; Linked to 19 ETF's; 1.65% coupon each year; 100% participation point to point (at maturity)

Contact your representative at Alamo Capital for more information and required documents needed to make your decision if any of these are appropriate investments for you.

Call **877-682-5266** or Email [information@alamocapital.com](mailto:information@alamocapital.com).

These CDs qualify for FDIC insurance coverage generally up to \$250,000 in aggregate per institution for individual accounts and certain retirement plans. All Examples are subject and must be officially offered along with proper Offering Documents. Available upon request.

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**3067/AUG/2018**