



Ask the Experts: Financial FAQs (Summer 2015)

In this issue, we tackle questions from readers looking for higher yields on their cash holdings, insight into the impact of a strong dollar on investment portfolios, and tips to help prevent identity theft.

Q. Where can I invest my cash holdings to generate better returns than low-yielding bank products?

A: We expect interest rates to remain low for the foreseeable future. In this environment, while a Federal Deposit Insurance Corporation (FDIC) guarantee may be reassuring, bank savings and money market accounts will continue to deliver meager returns. As a result, you may want to consider alternatives to traditional cash investments.

A few options you may want to explore include:

- FDIC-insured money market funds provide daily access to your money and offer the same FDIC guarantee as traditional bank products, but offer the lowest yields of these alternatives.
- Short-term U.S. Treasurys carry the full faith and credit of the U.S. government. However, keep in mind that your principal will fluctuate. Less fluctuation for shorter maturities; more for longer maturities.
- Certificates of deposit (CDs) are FDIC insured up to \$250,000 (per issuing bank) and are available with maturities up to five years. They are subject to liquidity risk; if you need your money before maturity, you may receive less than the principal amount invested.
- Short-term fixed annuities provide a fixed interest rate for a specified period, usually one to five

years. They offer higher rates than comparable-maturity CDs, but are not FDIC insured. The issuing insurance company guarantees the interest rate and principal, so you should consider the company's credit quality. Withdrawals may be subject to a surrender charge if you need your money before maturity.

- Short-term corporate bond funds are mutual funds that invest in short-term corporate fixed income securities. They offer daily access to your money and higher yields than comparable-maturity fixed annuities or CDs. However, their principal can fluctuate, so you may get back less than you invested.

While these alternatives may generate higher yields, each has its own set of risks you should consider before investing.

Q. How does a strong U.S. dollar affect investment portfolios?

A: This is a timely question in light of the dollar's recent strength versus key trading partners' currencies. The dollar has risen more than 20 percent over the past year due to views that the U.S. economy is in better shape than its global peers. But what does this mean for portfolios? Currency exchange rates affect asset class returns in different ways. Some are more responsive to currency movements than others.

Stocks. Large U.S. companies selling products and services outside our borders may receive revenue in a country with a depreciating currency. This can reduce their earnings. Further, many of their costs may be denominated in dollars, which makes a strong dollar a double-whammy. Some global technology and consumer products companies have seen this effect. Of course, the reverse is true as well. Large European and Japanese exporters are seeing improving earnings, thanks to higher demand for their products in the United States. Small- and medium-sized companies tend to sell less of their products and services abroad, so they are less affected by currency fluctuation.

Bonds. The bond market can be more complicated. Bond prices waver due to changes in central bank policy, anticipated inflation, and changes in credit quality, among other influences. Currency movements take their cue from these same influences, often reacting to the bond market. This means that higher interest rates in one country can lead to currency appreciation as global investors sell their local investments to invest in a higher-yielding country. Right now, U.S. interest rates are higher than corresponding levels in Japan and most of Europe. This is one of several factors helping to support bond prices and keep interest rates low here in the U.S.

Commodities. The strong dollar's impact on commodities is fairly straightforward. Because they are priced in dollars, a strong dollar makes commodities more expensive for non-dollar holders. The dollar's ascent is one of the reasons commodities have had an especially challenging time in recent months.

The bottom line is that currency movements are difficult to predict and tend to cancel each other out over time. This phenomenon leads us to advocate for well-balanced portfolios that include the stocks of large, medium, and small U.S. companies, international stocks, and bonds.

A strong U.S. dollar won't last forever, so enjoy it while you can. Many extraordinary memories are formed when traveling; use this dollar strength to go and explore the world. Bon voyage!

Q. Identity theft is frequently in the headlines. What can I do to prevent it and keep my finances safe?

A: Financial identity fraud occurs when a criminal assumes a person's identity to conduct financial transactions in that person's name. It often starts when personal information—such as a Social Security number, brokerage account number, or an investment account balance—is taken from an email. Criminals may also hack an investor's email account for financial advisor contact information. The thief then sends what appears to be an email from the client to the financial advisor with a request to transfer funds to a third party. To the advisor, the email appears to be from the client.

The following list provides best practices to help reduce your risk of identity theft:

- Keep your usernames and passwords private, and do not save them on your computer. Sharing this information, even with those you trust, increases your exposure to identity theft.
- Check your account information. Diligent review of your financial accounts and statements will help identify suspicious activity quickly. Immediately contact your financial institution if you see transactions you do not recognize.
- Be alert to notifications from the financial institutions you do business with. A transaction or change to your mailing or email address should prompt a notice to your address of record for security purposes.
- Review a copy of your credit report at least once a year. This will allow you to see any accounts opened in your name without your knowledge. You can order a free credit report by calling 877.322.8228 or visiting www.annualcreditreport.com.
- Change your account passwords every 45 to 90 days. Strong passwords decrease the likelihood of someone hacking your accounts. Make yours at least eight characters long and use at least three of the four character types: uppercase and lowercase letters, numbers, and special characters.
- Maintain personal firewalls and security software on your computer. This will block malicious software programs from accessing and transferring your personal data over the Internet.
- Avoid using public computers to access financial information, and do not use free wireless connections.
- If you receive an email from a financial institution requesting personal information, confirm the request via telephone before responding.

Of course, your financial institutions can help, too. At CAPTRUST, we take a number of steps to protect against fraud. Among them:

- We train our client service team to spot potential fraud by identifying red flags found in hacked emails.
- We confirm money movement requests prompted by email via a call to the clients' phone number on file.

- We use encrypted email and DocuSign, a secure electronic signature application, to send documents for signature as an extra level of protection.

For more tips, visit www.captrust.com/account or the Federal Trade Commission's consumer protection site at www.ftc.gov/bcp.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or [schedule an appointment](#) with a retirement counselor today.

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