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Now that rates are 2 sizes smaller, what's a Who to do?

Those nasty old Grinches cut rates in a wink,

They cut rates so low that CD yields stink.

When WhoBank's bankers pay interest, you see

The interest they pay wouldn't feed a Who-flea.

—From *How the Grinch Injected Liquidity Into the Monetary System*

The Federal Reserve has been lowering short-term interest rates to prop up the economy, and that's a good thing — unless you're a saver. When the Fed cuts interest rates, usually your bank eventually does, too.

Fortunately, you can still find decent yields. You have to look a bit harder for them, though, and you have to take a bit more risk.

The Fed has pushed down its key fed funds rate to 4.25%, from 5.25% in June. Lower rates make loans cheaper, which makes it easier for companies to borrow and expand. And by making more money available to lend, the Fed is trying to encourage reluctant lenders to make new loans.

But when the Fed cuts rates, banks cut the rates they pay on CDs and money market accounts. The average one-year bank CD now yields 3.5%, down from 3.8% in March, according to Bankrate.com.

Yields on money market mutual funds also fall when the Fed cuts rates. The average money fund now yields 4.08%, down from 4.76% in August.

If you count on investment income for part of your living expenses, you'll have to tighten your already-tight belt. A $100,000 CD at 3.54% will give you $295 a month in income, which might be enough if you live in a cave atop Mount Crumpit. If you don't, you'll want to look for investments that generate more income.

Normally, you can receive higher rates by investing in a longer-term CD. But these aren't normal times. The average five-year CD yields 3.76%. On a $100,000 investment, a 3.76% yield would earn you an additional $18 a month, or about enough for a can of Who-hash.

Also, you don't want to lock in a lousy 3.76% for the next five years. Rates are more likely to rise than fall in the coming years, because of the very real threat of inflation. Inflation, at 4.3% in November, will gobble up all your interest if prices continue to rise at their current clip.

Look for banks that really want to borrow your money. Countrywide Bank, for example, will pay you 5.5% on a six-month CD.

The trade-off: Many banks that offer high deposit yields have been in the news lately, and the news hasn't been good. Countrywide, once a leading subprime lender, has been plagued by lower lending volume and rising defaults.

These banks' troubles shouldn't haunt you if you stay within the federal deposit insurance limits. (You're insured for up to $100,000 of your deposits.) The insurance is quite generous: You also enjoy separate $250,000 insurance for your individual retirement accounts, for example. For a complete rundown, go to www.fdic.gov.

If you want higher yields, though, you'll have to take more risk — including that your principal might fall. One suggestion: closed-end bond funds. Unlike most mutual funds, closed-end funds issue a set number of shares that trade on the stock exchanges, just like stocks. The twist: Many times, the market price of closed-end funds falls below the value of the fund's holdings.

Thanks to the meltdown in the credit markets, many closed-end bond funds have been clobbered. That's bad news for people who had bought the funds. But it's good news if you're now looking for high yields at bargain prices. Thomas Herzfeld, a closed-end specialist, says closed-end bond funds now offer some of the best buys he's seen in nearly 40 years.

Consider, for example, Putnam Premier Income Trust (PPT). Wednesday, the fund's shares sold for $6.14. But the fund held securities worth $7.11 a share. In other words, you'd be buying the fund's shares for a 13.6% discount to their real value.

More important, the fund's yield is a generous 5.8%, according to the Closed-End Fund Association (www.closed-endfunds.com). Other closed-end bond funds that Herzfeld likes are in the chart.

Closed-end expert George Cole Scott recommends Nuveen Global Value (JGV), Nuveen Multi-Strategy Income (JQC) and First Trust/Aberdeen Global Opportunity Income Fund (FAM).

Closed-end bond funds aren't suitable investments for people whose idea of risk is buying a five-year CD instead of a three-year CD. They're just too risky. But if your budget feels two sizes too small, these investments might make the holidays a bit less Grinchy.

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