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Can I Interest you in a Negative Interest Rate?

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To be honest, this negative interest rate phenomenon has me concerned. Did you know that over 13 trillion of worldwide debits have a negative interest rate? That's right, a **NEGATIVE** interest rate! I've read that $\frac{1}{3}$ of government debt and $\frac{1}{4}$ of all debt have a negative interest rate, mostly in Europe and Japan. How is this possible? It doesn't make sense, at least in a capitalist society that you would loan money to someone who guarantees to pay you back less than you loaned them.

This is what the Central Bankers, who control money supply and the interest rates, of the world's governments have determined is a way to get you to quit saving and instead spend your money. They think this will stimulate the economy because saving money is now a losing proposition. Are we going to get to a point where the investment choices become whether to invest in German Bonds, where you lose $\frac{1}{2}$ a percent or Japanese Bonds where you only lose $\frac{1}{4}$ percent? Aren't you guaranteed to lose money either way? Wouldn't it be better to just put your money under your mattress? You might have to get a really big mattress. Keep in mind this is not as big an issue in the U.S. yet, but it's definitely putting downward pressure on our interest rates.

One of my favorite economists, Dr. David Kelly of JP Morgan recently said something like: I hate torture. When you torture someone they will tell you anything you want to hear, but not necessarily the truth. This is what the U.S. Fed and other Central Banks are doing, torturing interest rates, which means that we cannot tell what true interest rates should be. Interest rates are an important indicator of what is going on with our economy, but because they are being tortured we can't trust them to help us make good decisions.

So the big question is why are interest rates so low? Some say that logically, it is because there is too much money chasing too few bonds. That may be true, but I believe that it is not because investors have too much money to invest in interest paying bonds, but that the Central Banks are buying so many bonds that there are not many left for investors to buy. The U.S. Central Bank has bought over four trillion dollars of debt to keep interest rates low. If you are a company or government and you know that the Central Banks are going to buy your debt at irrationally low interest rates then you will set the interest rate very low or even negative and still be able to sell them. Where would the interest rates be if Central Banks weren't buying up all the debt? No one knows. Maybe the Central Banks are doing this because they are in so much debt that they couldn't afford the interest payments if the interest rates were to rise.

I think many business' are making bad long term decisions and investing in risky endeavors because presently they can borrow at 4% and earn 6% in return. But what if the interest rates should be 8% on risky endeavors if rates weren't being tortured and we return to normal interest rates? Well, it would turn out to be a bad business decision and the business would lose money.

We are in uncharted waters here. Can the world's Central Banks keep interest rates low, which help borrowers at the expense of savers? Few people talk about the negative impact on the economy when savers earn less money to spend on goods and services which is 70% of our economy, or the societal impact of encouraging borrowing and spending versus saving. There is a fine line between enjoying life now and investing for the future. I may be able to help make this fine line a little more thick for you and you can have both! It takes a little planning and discipline, but it can be done. Keep in mind that I am just a salaried employee and my paycheck won't be affected by whether you accept my recommendations or not. I am not being tortured by my paycheck so I can tell you the truth! Call me at (503) 668-2530 if you have any questions or concerns.

Your Friend,

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Barb's Blog

And just like that... In another couple of months it is going to be Annual Election period "AEP" for Medicare. This will start October 15th and run through December 7th. The Medicare Advantage market is starting to become very popular with approximately 33% nationwide (closer to 42% here in the state of Oregon) enrolling in these plans. With over 11,000 Americans turning 65 every day they will need to know what their options are. And here in the tri-county area, if they choose to go with a Medicare Advantage plan, they will have at least 35 plans to choose from. Along with Medicare AEP the open enrollment for the individual health insurance market will again run from November 1st through December 15th. I am currently learning about all the changes coming up in 2020 health insurance products and I will once again be giving Medicare seminars during the Annual Election Period. Please feel free to call me if you have any questions or would like help navigating this complex market. (503) 668-2575