SCHWARTZ *Report*

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DIRECT: 302-234-5202 • OFFICE: 302-239-3000

www.charlieschwartz.com

Negative on Negative Interest Rates

We are in the seventh year of the weakest post-recession recovery since World War II. US economic growth has averaged 1.8 percent per year, almost half the long term average of 3 percent. The Fed (Federal Reserve) has been pursuing an extremely accommodating monetary policy that has included the purchase of about $3 trillion of treasury and mortgage backed securities. Three rounds of QE (quantitative easing) have pushed long term treasury yields down and driven investors into a maddening search for higher returns on investment. The "policy community's" theory behind all of this is that higher stock, bond and real estate prices would have the "wealth effect" of causing a surge in consumer confidence. Confident consumers are supposed to spend more freely and robust consumer spending is reputed to be the engine that pulls an economy out of the doldrums. Increased consumer spending should call forth a demand for more goods and services to be produced thus creating jobs and spurring investment in new productive capacity. Not!

Unfortunately, this Fed policy seems to have done more to boost prices of financial assets and miss-allocate capital than it has done to help the overall economy. Housing prices, for example, are rising faster than the incomes required to buy them. Lawrence Yun, chief economist for the National Association of Realtors, wrote in the September/October, 2016 issue of *Realtor Magazine*: "While [family] income has ticked up a percentage point or two, home prices [nationally] have been growing by 5 or 6 percent a year. That, in turn, is creating an affordability crisis. Somewhat paradoxically, the home ownership rate – at 63.5 percent of households – is at a 50-year low even though mortgage rates, at 3.5 percent, are also at their lowest over the same time period." A composite index of stocks, bonds and homes shows that their combined valuation has not been higher in the last 50 years.

The Fed is charged by Congress with two main responsibilities; to promote full employment and to maintain stable prices – which is to keep inflation under control. Unemployment has come down but, one could argue, that the job of promoting full employment should also include increasing the labor force participation rate as well. The ironic thing about its second job of maintaining stable prices is that the Fed and its allies in the U. S. Treasury Department seem desperate for some inflation to break out. Pursuing an easy money policy, while not stated as such, is designed to do just that. Returns on U. S. treasuries are close to zero. Worse still, in Europe and Japan, something like $13 trillion of sovereign debt is quoted at yields of less than nothing. In the U. S., nearly every form of borrowing pegs off of treasuries. Rather than boost the overall economy, this easy money policy has inflated the prices of financial assets and real estate, some would say, to the extent that another bubble may be forming. A recent Bloomberg Businessweek commentator put it this way: "...although the Fed's motivations aren't political, its actions are inherently political in the sense that they affect the economy and thus create winners and losers..."

Treasuries are debt instruments that are supposed to pay interest from the borrower to the holder, which is the sticking point about the zero interest rates we are approaching now. A recent Wall Street Journal book reviewer put it this way: "A positive integer would almost seem inherent in the idea of interest. When most of us want something, we want

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it now. And if we don't have the money to buy it now, we borrow." Interest rates after all are prices. They tell consumers and businesses whether to undertake certain expenditures or investments. They translate the value of future cash flow into present dollars.

Some would argue that any debtor, be it a nation or a person, with the power to set the interest rates on its loans would do so in a heartbeat. That's our Uncle Sam. Of course, a zero or negative interest rate environment is a detriment to savers, not only here but in other countries as well. Here is how Theresa May, the new British Prime Minister put it in a recent speech: "People with assets have got richer. People without them have suffered. People with mortgages have found their debts cheaper. People with savings have found themselves poorer." This all creates an upside down financial world that rewards impetuousness and punishes thrift. It also has created the intriguing scenario where the world's biggest borrower, the U. S. Government, has made it possible for federal debt held by the public to double while the cost of servicing that debt has actually declined. Such a "through the looking glass world" cannot go on indefinitely. Normalizing interest rates will be expensive for Uncle Sam and may cause the prices of overvalued assets to decline in the short run. However, the longer normalization is delayed the worse the eventual adjustment may be.

Charlie Schwartz
Patterson-Schwartz
7234 Lancaster Pike, Suite 100A
Hockessin, Delaware 19707
302-239-3000

11 Critical Home Inspection Traps to be Aware of Weeks Before Listing Your Home for Sale

DE, MD, PA – According to industry experts, there are over 33 physical problems that will come under scrutiny during a home inspection when your home is for sale. A new report has been prepared which identifies the eleven most common of these problems, and what you should know about them before you list your home for sale.

Whether you own an old home or a brand new one, there are a number of things that can fall short of requirements during a home inspection. If not identified and dealt with, any of these 11 items could cost you dearly in terms of repair. That's why it's critical that you read this report before you list your home. If you wait until the building inspector flags these issues for you, you will almost certainly experience costly delays in the close of your home sale or, worse, turn prospective buyers away altogether. In most cases, you can make a reasonable pre-inspection yourself if you know what you're looking for, and knowing what you're looking for can help you prevent little problems from growing into costly and unmanageable ones.

To help homesellers deal with this issue before their homes are listed, a free report entitled "11 Things You Need to Know to Pass Your Home Inspection" has been compiled which explains the issues involved.

To order a FREE Special Report, visit www.charlieschwartz.com and select *Seller Tips* from the side bar menu, or to hear a brief recorded message about how to order your FREE copy of this report call toll-free 1-888-322-5252 and enter 1003. You can call any time, 24 hours a day, 7 days a week.

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