The Whacky World of Negative Interest Rates

September 19, 2016

Frank Hefner
Watch your savings grow!

THE "MIRACLE" OF INTEREST COMPOUNDING

Few people get rich from their wages alone. But by taking advantage of the "miracle" of compound interest - earning interest on your interest - almost anyone can reach long-term financial goals.

BY SAVING AS LITTLE AS $50 A MONTH YOU CAN BUILD CONSIDERABLE WEALTH

The chart tells the story

Save $50 a Month
With a 5% Yield

$614  $3,400  $7,764  $29,775
1 year 5 years 10 years 25 years 40 years

*$24,000 principal and $52,301 interest.
Some Basic Math

$1000 one year bond sold at $900
At end of year you get $1000
$100 interest on a $900 investment
Interest equals $100/900 = 11.1%
$1000 one year bond sold at $950
At end of year you get $1000
$50 interest on a $950 investment
Interest equals 50/950 = 5.26%
$1000 one year bond sold at $1001

At the end of the year you get $1000

But you paid more!

Yes- you paid for the privilege to lend your money

That is a negative interest rate!
<table>
<thead>
<tr>
<th>Countries</th>
<th>Feb. 16</th>
<th>Mar. 16</th>
<th>Apr. 16</th>
<th>May 16</th>
<th>June 16</th>
<th>July 16</th>
<th>Aug. 16</th>
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</thead>
<tbody>
<tr>
<td>Germany</td>
<td>0.17</td>
<td>0.17</td>
<td>0.13</td>
<td>0.13</td>
<td>-0.02</td>
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<td>0.84</td>
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<tr>
<td>Greece (3)</td>
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<td>9.03</td>
<td>7.64</td>
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<td>0.33</td>
<td>0.12</td>
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</tr>
</tbody>
</table>

Long Term Rates (10 year)
Working Age Population: Aged 15-64: All Persons for the United States

Source: Organization for Economic Co-operation and Development
fred.stlouisfed.org