Tom Mullooly: In episode 38, we're going to talk about negative interest rates. Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly and this is episode number 38. 38 on the Mets, right now is going to go down in flames, because the most famous number 38 on the Mets, is Victor Zambrano, very checkered history. Go check him out sometime.

What we do on these videos, is we get questions from our clients, from our viewers, from our audience, and they want to know things about managing money, or how to save for the future, or basic financial planning investment questions. If you've got a question that's burning a hole in your pocket, get in touch with us. You may see it on a future video. Casey? What's on tap for today?

Speaker 2: I thought the Fed was raising rates, but I just saw a headline that said, "Rates are at all-time lows." What's going on?

Tom Mullooly: To give some background on where the Fed is at, you kind of have to understand where the world is at first, and right now 40% of developed countries around the world have negative interest rates, negative interest rates.

Normally, you put money in a bank and you'd earn some money. Now, 40% of developed countries are paying minus yields on their deposits, so ... Think about that. Why would some countries have negative yields? Well, they've tried quantitative easing. They've tried putting more money in circulation. They've tried all these different things and they haven't been able to spur the economy in their local region. Now what they are doing, is, they are actually ... I don't want to use the word punish, but they're creating a dis-incentive for banks to hold deposits. What they want the banks to do, is to bring in a deposit, and lend it right out, and earn money on loaning to, kind of spur growth in the economy.

I think a lot of economic boards around the globe are starting to run out of bullets. It's worrisome. It's risky. Banks don't actually charge negative rates on consumers. What they'll do is forgo some of the fees that they would normally assess. Banks aren't making money, because they can't collect fees on their deposits now, with negative interest rates. They're having a hard time lending out money. I think part of that is because there's not enough demand out there.

Here in the US, we talk about the Fed wanting to raise interest rates, but rates on treasuries are actually going down. What's going on? To answer that question, you’ve got to think about, more than half of the world has negative rates. The rest of the world has pretty low rates. Money is going to go where it's treated best, that's a really old Wall Street saying. Money will go where it's treated best.

When the Feds raising rates historically, and there's less risk in things like, bonds. People will take money out of the stock market and go into the bond market, because rates are going up, and it's a little safer than being in stocks. Money goes where it's treated best. Don't ever forget that. If you look around the globe, and there's negative interest rates in half of the world, and the other half of the world has too much risk, because they're undeveloped economies, or emerging markets, where are you going to go? Where are you going to go?

We've seen the 30 year treasury now, slip under, well under three percent. We've seen the 10 year treasury go under two percent. In fact, last week, it was down at 1.35 percent, and some economic forecasters are saying that it could get pulled down, with the rest of the globe, down near one percent. One percent for a 10 year treasury. That's a high price to pay for safety. You're not going to get any kind of return. That kind of, then creates that spiral effect.

Well, if I'm only going to get one percent on a treasury for 10 years, maybe I ought to look at something else, like ... Something else, an investment in the stock market, that has a higher yield. Not going to have the safety that you have with the treasury, but it's going to give you some more cash flow.

These are problems that we're dealing with every day, here in the office. We get clients, who are just sick and tired of getting zero on their cash. They want to earn a higher return, but there's a trade off. There's risk. Comes with it. It's something that all investors need to take a look at. We are talking to new clients, who are bringing in statements from other places, that are loaded to the gills, with risks that they don't really understand.

Before you get involved in an investment, that's got a really high yield, you may want to talk to an investment advisor. We'd be happy to answer whatever questions you have. If you have a topic that you'd like to talk have us talk about, get in touch with us. And you may see it on a future video. That wraps up episode 38. We'll say goodbye to Victor Zambrano, happily. We look forward to seeing you on episode 39. See ya then.