

Solutions for a New Economy

Our goal is to provide confidence in guiding complex decisions, provide oversight based on wisdom, and offer extensive knowledge, backed with formal educations.

Our services include retirement plan consulting, endowment & foundation consulting, along with individual investment & retirement management services.

By always acting in a fiduciary capacity, we provide objective and unbiased investment advisory services to our clients.



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this issue

How Far is the East from the West? **P.1**

Inflection Points **P.2**

How Far is the East from the West?

Sometimes, we need to think in terms that are hard to clearly contemplate. We know the distance from the North Pole to the South Pole on our world. If we travel directly through the earth, North to South is 7,900 miles. Traveling on the surface of the globe increases the distance to 12,416 miles. However, it is harder to define the distance from East to West. Is the Prime Meridian where East starts, where West ends, or just an artificial line? In much the same way, the Federal Reserve is now talking about negative interest rates, a concept that is uniquely challenging to grasp.

So what could negative interest rates mean and how could they be implemented? To start, U.S. banks hold their required reserves with the Federal Reserve. They may also hold their excess reserves with the Federal Reserve. The Emergency Economic Stabilization Act of 2008 allowed the Federal Reserve to start compensating banks for holding excess reserves. This was done in part to reward banks for being more conservative.

This reward has resulted in tremendous growth of excess reserves held by the Federal Reserve. As a baseline, banks held \$1.65 billion in excess reserves in January 2008. Excess reserves have grown to \$1.5 trillion as of the end of July 2012.

The theory of negative interest rates has transitioned into reality with Denmark implementing the practice. Denmark's central bank moved interest rates into the negative zone on bank certificates of deposit. The rate of negative 0.20% is the lowest the central bank has seen since its inception in 1818. The reason that the bank moved to negative interest rates was to curb the increasing value of their currency. The European financial crisis caused an increased demand for Danish deposits which resulted in a higher demand for their currency. Negative interest rates were one method the central bank used to moderate their currency's value.

The application of negative interest rates in the U.S. would have different desired

This Issue's Trivia Question

Q: What securities received the nickname "Certificates of Confiscation?"

In the late 1970s, United States Treasuries had negative real rates of return and were nicknamed Certificates of Confiscation.

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outcomes than Denmark's desired outcome. The scenario of paying banks has allowed them to earn risk free returns and strengthen their balance sheets. Unfortunately, the Federal Reserve policy has not been effective in promoting the flow of credit. Businesses that could benefit from loans or creditworthy individuals have been passed over in favor of the Federal Reserve.

So what would happen if the Federal Reserve implemented negative interest rates on excess reserves? A natural outcome would be for banks to start lending out their excess reserves. Banks might make interbank loans, which efficiently allocates capital to "best" uses. Another option would be to lend to businesses and individuals. The release of \$1.5 trillion in excess reserves might aid the economy in moving forward. Excess reserves are unproductive and idle assets that could be put back into building American dreams.

In differential calculus, an inflection point is a point on the curve where it changes directions. More accurately, it is a point on a curve where the curvature changes sign from plus to minus. In more simplistic terms, an inflection point is a change in course or direction.

When saving for retirement, you will have two inflection points. The first inflection point you may not even notice. For approximately the first twenty years of your career, your savings rate will play a more significant role in retirement success than the investment gains on the account. However, once you reach the start of the second half of your career, the investment allocation will overtake your contribution rate in significance.

It is always important to save as much as you can for an unknown future. However, do not forget to

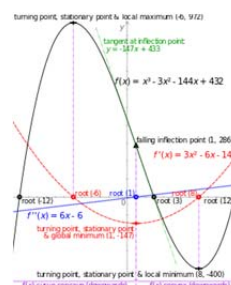
invest some time into determining the right investments and asset allocation for your situation.

The second inflection point is when you actually retire. This is when the accumulation phase changes into the development of sustainable retirement income.

This inflection point can have significant ramifications for a retiree's future. Many retirement income

planning products are just being developed and new to the marketplace. They are being developed to accommodate the wave of baby boomers reaching retirement. Traditional investment approaches may be more effective and less costly than some of the new products being introduced in the marketplace. If you are reaching this inflection point, consider if you might benefit from independent assistance.

Inflection Points



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