



June 2018

A closer look at the Federal Funds Rate

Understanding the Federal Funds Rate

“The Fed is meeting to discuss interest rates” is a phrase that is used frequently in the media, typically surrounded by heated discussion of what effects the decision will have. But what exactly is this rate, how is it determined and what does it mean for the economy?

About the Federal Funds Rate

The Federal Funds Rate is set by the Federal Open Market Committee of the Federal Reserve (the FOMC) based on recent economic activity. The FOMC decides how much interest a depository (such as a bank, credit union, or other institution that holds tradable securities) charges on an overnight loan to another depository.

The Necessity of Intragovernmental Lending

Central banks are legally required to carry a minimum amount of capital at the end of the business day in order to ensure they can execute daily transactions. So if a bank or other depository has excess capital, they can lend it to another bank that may have a shortfall. This “overnight loan” is lent at a low interest rate set by the FOMC. To set this rate, the FOMC meets eight times per year, or approximately once every seven weeks, and considers recent economic and financial statistics to determine what the rate should be.

What the Rate Indicates

The Federal Funds Rate is reflective of the health of the US economy. If capital is more liquid in banks, the interest is higher. However, in times when money is harder to come by, the rates are lowered to make the money more liquid. Because the rate correlates with liquidity of capital, banks use this to determine their own short-term interest rates on deposits, credit cards, adjustable mortgages and other personal loans.

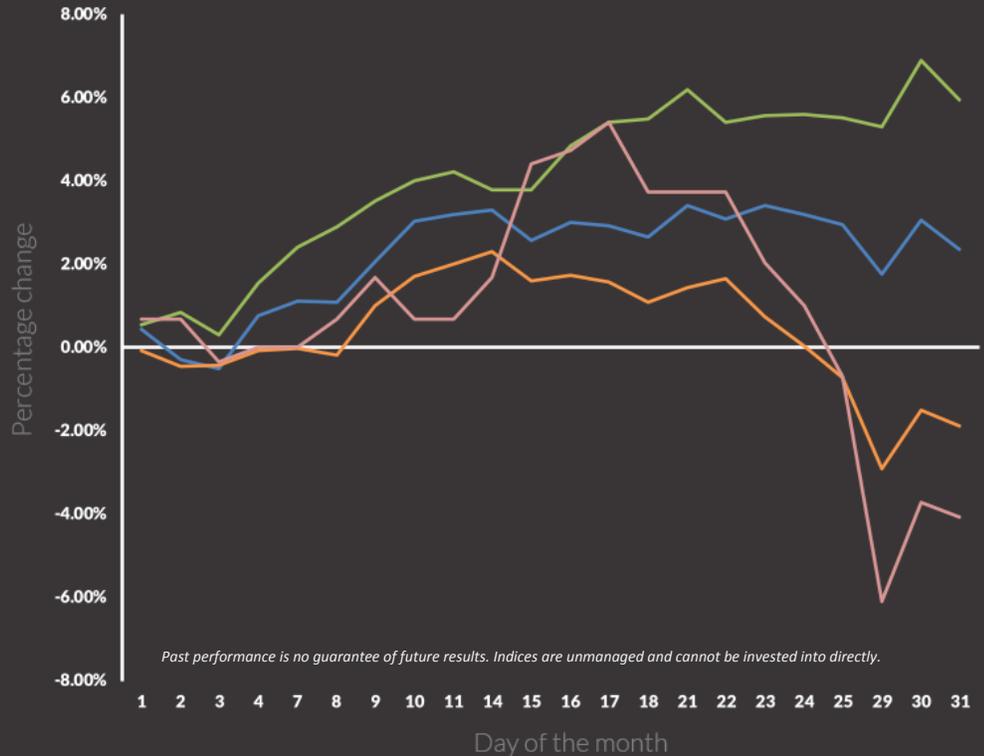
Historical Significance

In the 1980s, when inflation rates were high, the FOMC set aggressively higher overnight rates in order to combat soaring prices and lower liquidity. Conversely, after the great Recession of the mid-2000s, the FOMC set a low rate in order to stimulate liquidity of capital between banks.

The market at a glance

May

■ U.S. Large Cap (S&P 500)	2,705.27 (2.36%) ▲
■ U.S. Mid/Small (Russell 2000)	1,633.60 (5.96%) ▲
■ International Large (NYSE International 100)	5,551.92 (-1.87%) ▼
■ U.S. Treasuries (U.S. 10-year Treasury yield rate)	2.83 (-4.07%) ▼



The market in action

- After months of speculation and build-up, President Trump chose to withdraw the United States from the Iran nuclear deal. With the withdrawal, economic sanctions likely will again affect Iran's precious-metals and oil sectors.
- The Supreme Court of the United States effectively ended the prohibition on sports betting. The decision makes a key distinction allowing for states to enact their own regulations regarding sports betting. Before the decision, only the states of Delaware, Montana, Nevada, and Oregon had legal sports betting.
- PayPal agreed to purchase European FinTech startup iZettle AB for roughly \$2.2 billion, an acquisition that would launch the digital-payment provider into hundreds of thousands of retailers around the world. This comes at a time when PayPal has begun to face encroaching competition from Wall Street-backed payment services like Zelle.
- Warren Buffett revealed that, after purchasing a massive 75 million shares of Apple stock in the first quarter, Berkshire Hathaway is set to make roughly \$700 million this year in dividends from this Apple stock alone.
- May came to a close with more threats about tariffs. The United States stated its intentions to move forward with aluminum and steel tariffs on imports from Canada, Mexico, and the European Union. Canada and the European Union have both promised retaliatory tariffs of their own.

Things to consider when purchasing property abroad

Maintaining a diverse portfolio is key in protecting your investments from significant losses. Though this adage is commonly used in reference to liquid assets, diversification can apply to hard assets too. In addition to a potential vacation spot or second home, buying international property can be a way to diversify your assets in the event of a domestic economic downturn. Consider the following and see if purchasing property abroad is right for you.

Benefits of buying property abroad

Diversification from domestic market: Owning property abroad, as well as earning potential income generated by the property, will diversify your investments and reduce having all of your assets tied up in one economy.

Owning a personal getaway: Buying property in another country doubles as both an investment and a place of residence. Owning a home abroad can provide you a place where you and your family can consistently vacation and also opens the door to a source of supplementary income should you chose to rent out your property.

Foreign Tax Credit: If you are considering buying property and renting it out, the Foreign Tax Credit may reduce your tax burden. To qualify for the Foreign Tax Credit, you must meet the following requirements (as provided by IRS.gov):

- The tax must be a legal and actual foreign tax liability

- The tax must be imposed on you
- You must have paid or accrued the tax
- The tax must be an income tax (or a tax in lieu of an income tax)

Risks of owning international property

Uncertainty of value: Evaluating domestic property is relatively easy given familiarity with the country and access to data on realty websites and smartphone apps. Monitoring the sale prices of similar properties in the surrounding area can give you a precedent for how much the property is worth. However, when looking at international property, some areas may not have the same breadth of tools available for determining the market.

Local economy: Once international property is purchased, the investment itself may be volatile. A downturn in the local economy or the country's economy can erode the property value. While this is true of any economy, American investors may not have an in-depth working knowledge of the desired foreign economy.

It is important to note that nearly every country has different ownership laws. Laws, customs and ownership precedents may be different depending on where the property is located. Therefore, any action taken toward travelling and obtaining property in another country should be thoroughly researched before any final decisions are made.



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