LIBERTY
Asset Management, Inc.

March 2016

Rates Go Negative

In mid-February, the Bank of Japan (BOJ)—Japan's central bank—lowered its funds interest rate to -0.1 percent. It meant the BOJ would begin charging private Japanese banks for holding on to excess cash reserves.

This negative interest rate policy (NIRP) is not unique to the BOJ. By "going negative," Japan joins the European Central Bank and the central banks of Sweden, Switzerland and Denmark.

Why are so many central banks doing this? Economic growth in several developed countries has recently slowed down as businesses have grown accustomed to low rates. Central bankers hope that pushing rates down into negative territory will help their economies resume expansion.

How it Works

To understand how NIRP is supposed to help, try imagining what would happen if your personal bank accounts had negative interest rates. How would you react to paying to save money each month? What changes would you make to your finances?

You probably would reach the same conclusion as most people: "I need to minimize the money in my accounts." One option would be to invest the money so that it has a chance to grow; another option would be to spend it on a major purchase before you need to pay any interest.

These are essentially the same responses governments are hoping to incite from investment banks and large corporations. Economic slowdowns cause businesses to focus on saving money when central banks need them to spend it. The savings penalty created by negative rates squeezes hoarded cash out of corporate accounts and into new business investments.

NIRP also provides a strong signal that a central bank will do whatever it takes to promote healthy inflation and fight against a slowing economy. This means a NIRP can become a type of rallying point for businesses, creating enough confidence in future growth that companies proactively expand and turn their growth expectations into reality.

Effects at Home

The BOJ's move to negative rates has raised questions about the future of America's monetary policy. In a world where several central banks have continued to lower rates, the United States has been trying to raise them. Economists and investors wonder whether America will be able to continue bucking the downward trend or if its rate hikes need to be stopped.

Rising interest rates often accompany economic success. Because the United States' economic recovery has drastically outpaced most other developed economies since 2009, it needed to start increasing its interest rates first. As its economy improves, its interest rates should need to be raised.

However, central bank rates must be compared to each other. Although the United States has only recently started raising rates, rate cuts in other countries have led some to believe that its *relative* rates are increasing too quickly. If the relative rates climb too much, the dollar could become too strong and other countries would stop buying U.S. goods, hurting the chances of further U.S. growth.

Will America Go Negative?

While anything could happen in the future, most experts currently believe U.S. rates will not go below zero. The U.S. Federal Reserve has said it studies negative rates and simulates them for bank "stress tests" but doesn't envision needing them. After years of aggressive quantitative easing and zero percent interest rates, it's unclear what new benefits negative rates would even provide for the U.S. economy.

It's also important to remember that countries can influence rates in both directions. As the world's two largest economies, the United States and China are in position help stimulate other economies through trade. If their growth and consumption become strong enough, the world economy will improve and rates in other countries will be brought above zero.

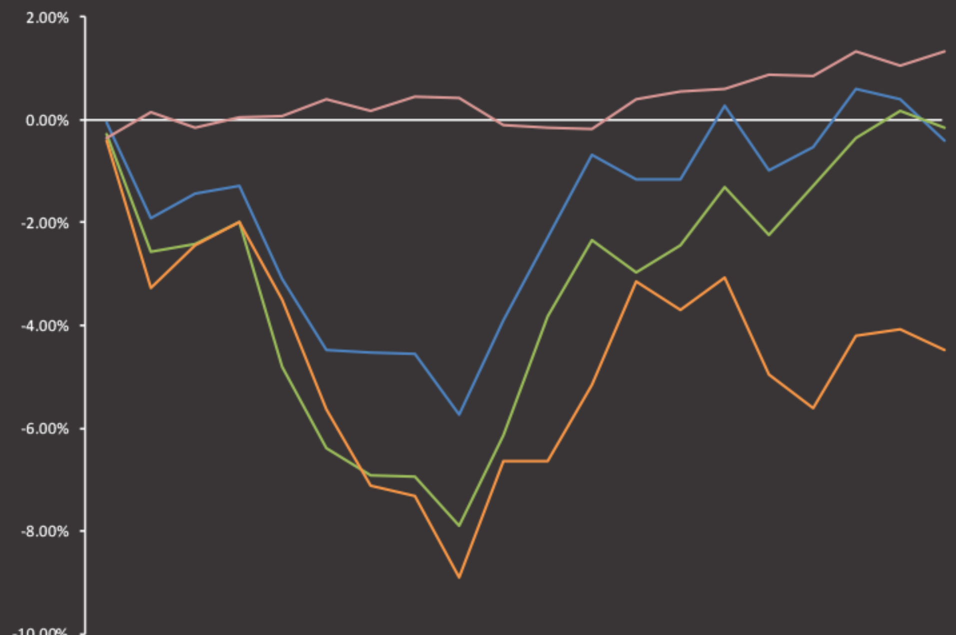
the market at a glance
FEBRUARY

U.S. Large Cap
(S&P 500)
1,932.23 (-0.41%) ▼

U.S. Mid/Small
(Russell 2000)
1,033.90 (-0.14%) ▼

International Large
(NYSE International 100)
4333.22 (-4.47%) ▼

U.S. Bond Market
(Dow Jones Equal Weight U.S. Issued Corporate Bond Index)
347.84 (1.33%) ▲



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- The U.S. Bureau of Labor Statistics reports that average hourly earnings rose sharply in January, increasing by 0.5 percent from the month before. Economists attributed the large jump to higher employment rates and new minimum wage laws in many states.
- Moody's Investor Service downgrades Brazil's credit rating by two levels, officially making its sovereign bonds "junk." Brazil had already received junk ratings from the other two credit rating agencies, Standard & Poor's and Fitch Ratings.
- Thanks to the 2015 surge in the Chinese stock markets, Beijing surpasses New York as the "Billionaire Capital of the World." Beijing is now home to 100 billionaires; New York has 95.
- The U.S. Department of Commerce authorizes Cleber LLC, a tractor company, to build a factory in Cuba. It is the first factory a U.S. business has opened in Cuba in over 50 years.
- After seeing its Q4 profits drop more than 90 percent year-over-year, oil giant BP announces plans to cut more than 3,000 jobs before the end of 2017. Nearly all major oil and gas companies have announced workforce reductions during the past few months as oil prices remain at decade lows.
- China announces plans to lay off as many as 1.8M coal miners and steel workers in an effort to reduce industrial overcapacity. While unable to provide a specific timeframe, Chinese officials said the process will take years.
- International Business Machines Corporation (IBM) agrees to buy Truven Health Analytics for $2.6B. It is the latest in IBM's steady acquisition of health-data companies as it works to improve the diagnostic capabilities of its "Watson" supercomputer program.
- Home-flooring producer Lumber Liquidator sees its market value tumble as the Center for Disease Control releases estimates showing that chemicals in some of the company's laminate flooring poses a cancer risk of six to 30 cases per 100,000 individuals. Lumber Liquidators stopped selling the contaminated flooring in early 2015.

Dealing with Debt Collectors

You're at home one evening. It's been a long day, and you've just sat down to relax. Your phone rings as you get a call from an unfamiliar number. Being curious, you decide to pick up and see who's calling—but within seconds of answering, you hear three words that fill you with dread: "debt collection agency."

A call from a collection agency doesn't have to be a horror story. It's a common consumer interaction experienced by more than one-third of Americans during their lives. Collection agencies aren't mobsters or extortionists; they are professionals in the business of closing old debts.

But despite their legitimacy, the initial call from a collection agency can feel uncomfortable and intimidating. Although there is a huge amount of professional advice and public information available to help you deal with collection agencies, there isn't any time to find it when the first call comes. There are, however, a few simple rules that can help protect you and put you on the path to a successful resolution.

Stay calm – When first contacted by a debt collection agency, do not panic. Debt default is not a crime and the outstanding amount will not need to be paid immediately. Do not hang up—avoiding the problem will make it worse.

Know you are being tested – Collection agencies must send you an official written notice of the claim within five days of initiating contact; the phone call is a type of interview. Collection agencies want to know how easily you will comply and whether you can pay the debt. If you sound guilty, apologetic or defensive, they'll keep trying to use pressure to get payment. Keep the conversation short and professional.

Listen for legitimacy – Impersonation of a collection agency is a popular scam. Thieves use the fear and discomfort of debt as a weapon to extract money and information from people. These scams often feature threating language but have vague details about the actual debt. Write down the name, address and phone number of the agency, as well as the name of the individual calling you. Even if the collection agency is legitimate, the claim could be a mistake. Don't assume anything until you received and reviewed the official letter.

Admit nothing – Even if you know you've defaulted, the collection agency may not actually have the means to prove it. Never acknowledge the accuracy of the claim or promise payments during the first phone call. The agency may abandon the claim if it can't find the necessary paperwork or the debt is too old; however, if you admit to the debt, you may substantiate the agency's claim.

Only give basic information – A collection agency may ask you for a lot of information. Verify your phone number and address (for contact purposes) but little else. Never give your social security number or banking details out over the phone.

Verify the claim – If the agency already sent its official letter prior to calling, ask for verification of the debt. Requesting verification forces an agency to delay collection and further contact until it delivers detailed proof of the debt (which they may not even have). *Note: Some agencies will ignore verification requests unless they are made by mail.*

Allow contact – Although a collection agency must cease contact at your request, keep the lines of communication open. Agencies are usually willing to negotiate, but you must talk with them. Shutting them out limits their options to legal action, where the next letter you receive will be court ordered. If you do not want to deal with agencies directly, you can request they use your lawyer as your contact—they must direct all future communication to him or her.

Debt collection can be a difficult process that may require numerous phone conversations, letters and legal counsel. While research and planning is needed for each unique claim, using these guidelines to maintain control during the first call is an essential step of the process.

LIBERTY
ASSET MANAGEMENT, INC.

6725 Kingery Hwy Willowbrook, IL 60527
Tel: 630.789.9653 | Fax: 630.734.1471
www.libertyassetmgt.com