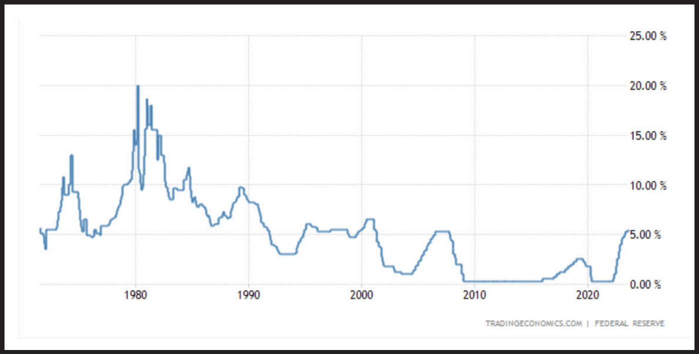
ARE YOU TAKING ADVANTAGE OF HIGHER INTEREST RATES?

JUSTABOUT WEALTH MANAGEMENT

I have been in this business for 26 years, and only twice have interest rates been this high during that time. As you can see in the chart below of the United States Fed Funds Rate, this occurred in the early 2000s and the mid-2000s. Higher interest rates were much more common prior to the year 2000, when they barely ever dipped below 5% going back to the 1970s. Of course, we had the hyper-inflationary period of the early 1980s in there as well.



For obvious reasons, the current interest rate environment is a double-edged sword. On the negative side, interest rates on debt have gone up significantly. Mortgage rates have moved up along with the Fed Funds Rate, and the average 30-year fixed mortgage is above 7% right now.[1] Less than 2 years ago, these rates were under 3%. We must put this all into context, though. The low interest rate period of the past 13 or so years was not the norm. My first mortgage was 5.75% on a 30-year fixed rate back in 1999. That is right around the long-term average. Clients frequently tell me of mortgage rates of 15% or more in the early 1980s. That certainly was not the norm either!

Credit cards are the other big issue out there right now. As of the week of August 16, 2023, the average credit card rate was over 21% for the first time ever![2] The bad thing is that credit card debt recently reached an all-time high, passing $1 trillion for the first time.[3] Credit card 0% or low interest offers are much harder to find now.

On the positive side, money in fixed investments can earn more interest in a higher rate environment. The average US money market rate as of July 2023 was 5.16%.[4] Short-term bonds are paying much higher interest rates, and even Series EE Bonds and savings accounts are paying more than they were.

Here are some tips on how you can take advantage of the current interest rate environment:

1. Make sure your money in the bank is working hard for you. People have become used to getting very little interest on bank accounts, so they have not been quick to find better rates than what they have been receiving. If your savings money is not getting 3-5%, you should look around for higher money market rates either at your current bank or another one. Short-term CD rates are also much more attractive these days if you can afford to lock the money up for a period of time.
2. Consider investing in bonds as part of your long-term plan. The bond market dropped 13% last year, and it has not regained much of that yet. There is an opportunity for nice yields in bonds plus the potential for appreciation as the bond market rebounds over time.
3. Pay down balances on high interest credit cards and loans as quickly as possible. If you can avoid keeping a credit card balance, that is certainly the best route. If you cannot, try to attack the ones with the highest rates first. Do not be afraid to use some of your cash on hand to pay them down quicker.
4. Consider using home equity to pay down high interest rate debt if it is available. Even though mortgage and home equity rates have gone up, they are much lower than credit card rates. This can be dangerous, though, if you start charging up the credit cards again eventually. Many people become comfortable with a certain level of debt and build it back up after they pay it off initially.

Ultimately, taking advantage of the higher interest rate environment is all about opportunity cost – making your money work as hard for you as it can to maximize your benefits. Where is it working the hardest for you? Make sure to take action to rectify the situation while rates are still high.

1. Freddie Mac – https://fred.stlouisfed.org/series/MORTGAGE30US
2. Creditcards.com – https://www.creditcards.com/news/average-credit-card-interest-rates-week-of-august-16-2023/
3. CNN.com – https://www.cnn.com/2023/08/08/economy/us-household-credit-card-debt/index.html#:~:text=Credit%20card%20debt%20sets%20new,marking%20a%204.6%25%20quarterly%20increase.
4. Moody's Analytics – https://www.economy.com/united-states/money-market-rate

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