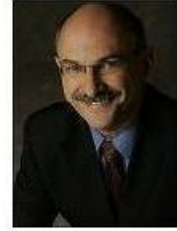


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FINANCIAL MANAGEMENT



There is a battle, a tug-of-war if you will, between savers and borrowers in this country.

Savers Lament

On the savers side, conditions are horrific. Interest rates on certificates of deposit (CD) have dropped significantly to the point where the average rate for a 1-year CD is 0.55% and merely 1.63% for a 5-y CD.

Reflect on that for a bit... your money locked-up for 5 years earning just 1.63%!

Other savings vehicles are struggling too. For example, a popular fund that contains corporate bonds from Wells Fargo, AT&T, Wal-Mart and other blue-chip American companies has an average maturity of 12 years and currently yields about 3.75%.

That's 3.75% of taxable interest income. Assuming your tax rate is 33%, you're left with an effective, after-tax yield of 2.5% which, my friend, is less than the historical inflation average of 3%.

So, while your bond investment is better than cash in the bank and protects you to some extent against inflation, you still end up with 0.5% lower buying power every year.

So savers can't be too happy about this.

While Borrowers Rejoice

Borrowers on the other hand, are having the time of their lives. Last week, the average 30-year fixed-rate mortgage hit its all-time low of 4.19%. The kicker here is that mortgage rates should actually be more than 0.5% lower - in the 3.8% range - based on their correlation with interest rates on Treasury bonds.

However, rates are unlikely to go much lower so here's a tip: If you are in the market to refinance, waiting is probably not going to help you much.

Furthermore, clients of mine are borrowing millions at 2.15% to fund their business activities.

Seems a Little Unfair

Without taking a moral stance, it does seem a bit unfair that savers, who in a sense are the “good guys” building wealth for their future, contributing capital for economic growth and saving for a rainy day, are being punished for the actions of irresponsible borrowers and greedy lenders. Borrowers got in over their heads, didn’t take reasonable precautions, and are now getting loan modifications and reduced rates on the money they owe. Banks experienced massive losses because of bad lending practices and caused this drop in rates to ultra-low levels.

However, this kind of discussion doesn’t get us anywhere. What has happened, has happened – fair or unfair.

So where do we go from here, and how do we profit from all this?

What Borrowers Can Do

Take a look at your finances from a borrower’s perspective.

First: refinance your mortgage NOW if you can because rates probably aren’t going to fall much lower.

Second: shop, shop, shop for a better rate on your credit card. Borrowing costs are dropping all around so why should you pay the same old high rate on your credit card? Find banks that are hungry to lend you money such as smaller institutions and Credit Unions, and avoid mega-banks that generally have all the money they need.

Third: take out a business loan if you need the money. Banks are loosening up and making loans at fairly low rates that are very compelling despite the risk of slower business in this weak economy.

However, use common sense and good judgment as you take on more debt. Take on “good” debt that funds your home purchase or assets that appreciate in value. Stay away from taking on “bad” debt for depreciating assets you can ill afford such as a new car or boat. If you must take on “bad” debt, make sure it is short term and pay it off very quickly.

What Savers Can Do

Now the hard part: finding deals as a saver.

First: look for a longer-term CD that will adjust higher if rates rise. There is little worse than locking your money in a 5-year CD at 1.50% only to see rates rise to 5% two years from now.

Second: consider buying corporate bonds with maturities of 5 years or less. These bonds still yield more than CDs, but make sure you know what you are buying – if the corporation goes bankrupt, you could lose a good chunk of your “safe” investment.

Third: consider buying high dividend paying blue-chip stocks. Warren Buffet recently said that stocks are cheaper than bonds right now, and he’s right. There are many solid companies out there whose dividend yields are above 3%. For example, Altria currently has a dividend yield of 6% and a solid history of consistent dividend payouts.

So... it’s up to you to be a winner or loser in the savings and borrowing game. All you have to do is know the facts, decide to act, get on the phone or in your car, and start getting your affairs in order.