

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Saving With Negative Real Interest Rates

By: www.ProfitableInvestingTips.com

As historically low interest rates persist and inflation accelerates, saving with negative real interest rates becomes increasingly futile. In this article we take a look at real interest rates and how to save and invest in the current era. We have written about how [negative interest rates](#) can affect your investments. For now rates are not likely to go negative but also the Fed appears to be in no great hurry to raise rates despite inflationary pressures. Thus, many are confronted with the problem of saving with negative real interest rates for the foreseeable future.

What Are Real Interest Rates?

The return as measured in purchasing power that an investor receives for an interest rate investment (bank savings, US Treasuries, bonds) is the real interest rate. Simplistically, this is the rate of a savings account, CD, Treasury, or bond minus the rate of inflation. In an article about how [now is a terrible time for savers](#), *The New York Times* notes that savers have two choices. One is to keep their money safe with interest rate investments like CDs and Treasuries and accept that they will be losing purchasing power on those investments. And, two is to continue to invest in stocks with the potential for a greater return on investment along with the risk of the stock market correcting or crashing with substantially greater losses.

What Is Your Rate of Inflation?

The rate of inflation that you experience will depend on what you need to buy. If you are in the market for a new home, prices are up 15% year on year since 2020 and if you need to buy lumber for an addition to your home, expect to pay 400% more than last year for the same materials. Used cars are up as are new cars as chip shortages have cut back on new car production. But, if you own your home and expect to drive your car for years, you are better off. Costs of health care, insurance, and medicines are rising at a rate faster than the reported 2+ percent of inflation. If you are employed in a growing business sector you can expect to see your wages go up to compensate for inflation. If you are retired, you can expect to need to count your pennies more and more over the years.

What Can You Do About Negative Real Interest Rates?

According to *Investopedia* [inflation eats away at your retirement](#). Despite yearly inflation, the government does not always increase Social Security payments every year and when they do they use an index that is more appropriate for younger people and not old folks for whom things like health care are major parts of their budget. Standard advice for those going into retirement has always been to rotate more and more of your portfolio into interest bearing vehicle such as bonds, CDs, and Treasuries. The rationale has always been that retirees cannot afford the risks associated with all of their wealth being tied up in stocks. However, today it would appear that retirees cannot afford to see their wealth being eaten up by the corrosive effects of

negative real interest rates.

Stable dividend stocks, utilities especially, have traditionally been part of retiree portfolios. Today, the safest way to invest in the stock market is probably to use dollar cost averaging and invest in an ETF that tracks the S&P 500. The SPY which tracks the S&P 500 passes through the dividends that are paid out by the stocks it invests in. The current rate is 1.26% per year. The point is to retain a steady cash flow along with appreciation in value to your portfolio in an attempt to stay ahead of inflation and avoid just saving with negative real interest rates.

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.

FREE training materials.

Free Weekly Investing Webinars

Don't miss these free training events!

<http://www.profitableinvestingtips.com/free-webinar>

Forex Conspiracy Report

Read every word of this report!

<http://www.forexconspiracyreport.com>

Get 12 Free Japanese Candlestick Videos

Includes training for all 12 major candlestick signals.

<http://www.candlestickforums.com>

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.

