Trading Forward

The Death of Compound Interest

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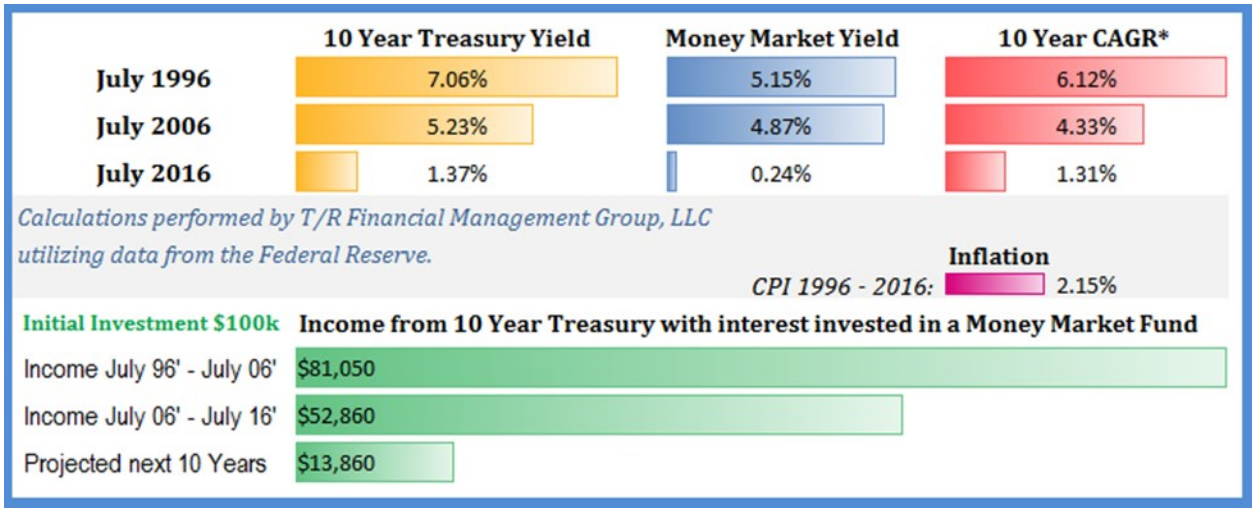

Compound interest has been called the greatest force in the Universe, yet it's no match for the world's central banks. One can easily see the reduction in total interest collected over the past 20 years when investing in "safe havens" backed by the full faith and credit of the United States government. $100,000 invested in 10-year Treasury Bonds in July of 1996 and held to maturity, with interest payments deposited into a money market account (paying roughly T-Bill rates), would have netted a bit over $81,000 in interest income. Buy a 10 Year Treasury in early July 2016, and the projected interest based on current rates will barely net $14,000. This potential difference in income is directly attributable to the historically low interest rates that resulted from the Financial Crisis of 2007 - 2008. Not only have low yields impacted money market rates, but they have drastically reduced interest payments to bondholders – often retirees seeking fixed income.

With the aforementioned in mind, **investors cannot look at past performance of bond funds or target date funds to make predictive investment choices**. Rather, focus on a forward-looking data inspired outlook to temper expectations.

*CAGR = Compounded Annual Growth Rate of a 10 Year Treasury bought at the prevailing yield, with the semiannual coupon invested/reinvested at the prevailing Money Market rate (T-Bill rate) semiannually.

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