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Memorandum

To: Clients, Associates & Friends of Pro@ctive Advisory
From: Mark L. Wyssbrod, Managing Member
Date: June 20, 2014
Re: Interest rates to remain low

In this memorandum, you will receive information about the following:

- Interest rates to remain low

Please contact me should you have any questions. Take advantage of the current market conditions!

Interest rates to stay low

The markets over-reached in 2012 and 2013 by just mentioning interest rates will rise when the Fed begins to taper (reduce it bond purchases). This year the Fed began to reduce (taper) its $85 billion per month purchase of bonds. Currently (May 2014), it is at $45 billion and it will continue to be reduced to zero by the end of the year. When the bond purchase reduction began, interest rates initially increased, but interest rates are currently lower now than at the beginning of the year.

So why have rates not increased? The economy may be a little slower than individuals want to believe; and the harsh winter weather did not help!

If interest rates do increase, earnings will decrease due to higher interest costs. Free cash flow will also be reduced by an increase in cash outflow for interest charges. Earnings and free cash flow are metrics used for valuing companies. If interest rates increase, valuations may decrease resulting in upset investors and lower consumer confidence.

Interest rates are an important component of mortgages in determining the monthly payment. Generally, individuals make purchases based on monthly payments. As interest rates increase either the monthly payment will increase or the amount of the mortgage will decrease. Labor rates continue to be stagnant. It is likely the purchasing power of the individual wanting to purchase homes will decrease; pressuring home prices. Since home building adds a large amount of Gross Domestic Product (GDP) to our economy, we cannot afford to have interest rates increase (and especially cannot have them increase rapidly). Unless salaries increase at a faster pace (which I believe is unlikely).

Interest rates and US Treasury rates seem to be correlated. As the economy increases, so do interest rates for US Treasuries. Likewise, as the economy decreases, interest rates for US

Treasuries decrease. With the significant increase in the US debt, long-term growth is assumed to be muted. With slower US long-term growth, it can be assumed lower US Treasury rates.

All in all, an increase in interest rates would cause too much harm to the economy for officials to allow. This means interest rates will remain artificially low resulting in higher inflation. We should expect and plan for living costs to increase faster than wages for the next decade.

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