

How to Borrow at 2%

As we all know, the Federal Reserve has been keeping interest rates high to fight inflation in America. Currently the cost to borrow is about 7% to 8%.

What many borrowers do not know is inflation has not been equal in every country. In fact, some countries are not experiencing significant inflation and their interest rates are therefore much lower than ours. In Switzerland inflation is only 1.5%. I recently moved some of my investments to a Swiss bank for two reasons.

First, I wanted to diversify country risk. If things ever go south in this country, I will have some money in another country and could quickly move assets there. Secondly, and more importantly, the Swiss National Bank (Switzerland's Federal Reserve) just lowered short term interest rates to 1.25%. That means I can borrow in Swiss Francs at a little over 2% per year with my investment account serving as collateral.

Anyone that has any outstanding loans in the U.S. at 7% or 8% may want to consider this as an alternative. By borrowing in Swiss France at a little over 2% and paying off more expensive debt, borrowers can save a lot of money. Even if you don't have any debt, you could borrow against your investments in Switzerland at a little over 2% and use the proceeds to buy US Treasuries yielding over 5%. It is truly an arbitrage opportunity.

For U.S. citizens, all interest and capital gains will be reportable on their tax returns regardless of in which country the investments are held. There is one thing borrowers need to be aware of, when you borrow money in Swiss Francs, you need to convert U.S. dollars to Swiss Francs.

At the time you pay off the loan, you need to convert the Swiss Francs back to dollars. If the exchange rate moved against you, it will increase the cost of your loan, however if there is favorable movement in the exchange rate the loan will wind up being less.

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