Calculating yield isn't that difficult

Part 1

A friend recently asked me what was the yield on one of his investments. Embarrassed by my inability to answer him in simple language, I decided to do some research and publish a three-part article on this important topic.

The technique of calculating the yield on an investment is directly related to the type of that investment. Examples are CDs, money market funds, treasury bills, bonds and bond funds, mortgage-backed securities such as GNMAs, and stocks. We will discuss the methods of calculating yields on these investments.

CDs

Two variables determine how much you will earn on your CDs: the annual rate of simple interest and the effective annual yield, which refers to the rate your money will earn if the interest is compounded. And herein lies the confusion: a five-year CD earning 10.77 percent simple interest is comparable to a five-year CD earning only 9 percent compound interest. To the uninformed, the former looks far more attractive than the latter, but that is simply an illusion.

The situation gets more confusing when some banks start interest calculations immediately while others delay the start-up period by several days. Another distorting factor is the minimum balance requirements, which determine how much your money will earn during a given period. Only a small group of banks uses a progressive interest scale which means that the higher your minimum balance the higher the interest your money will earn. Yet another variable factor is the low-balance

finances and you

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method in which the bank pays interest on the lowest balance on deposit each day.

The simplest way to compare yields on various bank CDs is to ask the bank how many net dollars (after fees and charges) you will receive when the CD matures. Then calculate the yield by dividing the net dollars received by the principal invested in that CD. This will make all CD yields comparable.

money market funds

Money market funds have peculiarities of their own. Some funds report higher yields merely by extending the date before the dividends are credited, while others increase their yields by temporarily paying the expenses normally paid by the shareholders. Since these measures are only temporary, the best way to compare the yields on different money market funds is to calculate these yields over a thirty-day period.

treasury bills

T-bill yields are quite confusing because of two reasons. First, since T-bills are discount issues, you pay less than the face amount but receive the face amount upon maturity. This makes the yield calculation cumbersome.

For instance, if you pay $9,677 for T-bill and receive $10,000 six months later, your (bond equivalent) yield would be 6.69 percent.

Second, T-bill yields are quoted on an annualized basis. Consequently, if you receive a 10 percent yield on a three-month T-bill, you would in fact receive only a 2.5 percent yield for the three-month period.

If for the balance of the year your money is invested at a lower interest rate, your yield would be less than 10 percent you expected to earn. Since there is no simple way to make the yields on different T-bills comparable, the simplest thing to do is to look under the heading "Yield" in the third column of the Treasury Bill section of the Wall Street Journal or the business section of any daily newspaper.

Next Week: More on yields.

Educational seminar: "1987 — A Year of Unprecedented Opportunities." The seminar, sponsored by Observer & Eccentric Newspapers and Coordinated Financial Planning Inc., will be 7-9:30 p.m. Tuesday, March 17, at the Kingsley Inn, 1475 N. Woodward, Bloomfield Hills.

For more information or reservations, call 643-8888.

Sid Mittra is director of certificate program in personal finance at Oakland University and president of Coordinated Financial Planning Inc.

The chart run as part of Sid Mittra's column last week was printed incorrectly. The correct copy follows.

investment	1986 results
treasury bonds	+26.2%
Dow Jones Industrials	+24.7%
long tax-exempt bonds	+22.0%
Standard & Poor's 500	+18.2%
over-the-counter	+8.2%
one-year CD	+7.9%
money-market mutuals	+6.3%
single-family houses	+5.5%
mutual funds	
investment	**1986 results**
international	+49.0%
gold	+33.3%
utilities	+26.1%
balanced	+18.7%
convertible securities	+15.6%
growth	+15.5%
fixed income (bonds)	+12.5%
small-company growth	+7.4%
Consumer Price Index	+1.2%

New firms receive help

Continued from Page 1

"UNDER THE guaranteed loan program the borrower is responsible for filling out all of their paperwork, which can be very complex and require legal assistance," Kure said. "Under our program we do all of that for him."

Since its inception in 1983, the Oakland County Development Corp. has seen $11,490,000 in total project dollars for the 504 program. Of that total, $4,345,000 was the agency's 40 percent portion, while $307,800 was collected in new property taxes and 942 jobs were created.

The agency is waiting to close on another $10,187,000 in project dollars, $3,977,000 of which is the SBA's 40 percent portion. If these loans go through, it will provide an additional $250,000 in new taxes and an addition of 550 jobs.

RUTH BIENIAK is a community loan officer for the SBA 504 program with the Economic Development Corporation out of Wayne County's Metropolitan Growth Association.

Although the rates to participate in the program are higher, she said she hasn't seen a drop in clients since the July changes.

"It's still going the way it used to. I haven't seen a drop in clients," she said.

The Metropolitan Growth Association deals with clients in both Wayne and Oakland Counties. Bieniak said her agency has seen $9,191,000 in total project dollars for Wayne County businesses and $3,426,000 in Oakland County. The 40 percent SBA portion adds up to $3,401,000 in Wayne County and $1,409,000 in Oakland County.

This has created a total of 1,339 new Wayne County jobs and 210 in Oakland County, as well as $276,829 in Wayne County property taxes and $101,237 in Oakland County.