

# Prix, Detroit both hurt by move to Belle Isle

For a couple of years now, Detroit's Grand Prix has been a kind of punk rock version of Formula One racing. To the drivers, racing the delicate, open-wheeled cars over manholes patched by the sort of street repairmen who bring you the John Lodge was something like doing dirty dancing in a tutu.

The Grand Prix promoters, accustomed to total control over advance money and gate receipts, wrung their hands in Detroit, as untold millions worth of spectator suites were handed out free by corporations, who rented every available hotel room, rooftop and yacht that had a clear view of the track and invited their friends and customers.

THE INSPIRATION of bringing international Formula One racing to

Detroit is often credited to Henry Ford II or maybe Keith Crain, publisher of Automotive News, both of whom harbored a relentless faith in the future of downtown Detroit and motorsports.

The race was just silly enough idea to become a wild success. I've never been convinced that Detroiters really thought much of the effort foreigners who drove the cars, and the feeling often was returned as the drivers sometimes acted as if the prize money made their hands dirty.

Many feel a top fuel dragster or running for pink slips out of the White Castle at Livernois and Joy is a little closer to home.

But given a couple of days with a closed street and some free music, free parking and no speeding tickets,



auto talk  
**Dan McCosh**

Detroiters know the makings of a good party when they see it. "It's like Detroit's Mardi Gras," a guy told me in a Birmingham coffee shop after he experienced the race downtown for the first time.

MORE LIKE SOME fantasia in sound and tall buildings, with the echo of race engines in full song belowing out of underpasses, off the highways and reflecting in the glass

of the Renaissance Center. The city, which rarely gets national exposure these days except as a place to scramble watermelons in "Beverly Hills Cop," never looks as good as it does on race day as the cars tear through the tunnels down along the river.

Spectators don't watch the racing as much as they immerse themselves in it. It is, after all, a unique spectacle, the only major car race

held on the downtown streets of a major city, a kind of hallucinogenic flash for the urban commuter come alive for a moment.

IT WAS ONE of the few things done right in years to enhance the city's battered image. Of course, it was too good to last.

The promoters have prevailed and will move the Grand Prix to Belle Isle next year. The proposed course runs by the aquarium and the Great Lakes museum, which are lousy places for Chevrolet to rent for their party.

I also figure it will be long after the bars close before any spectator manages to find release from the island over a four-lane bridge that exists two miles from an expressway.

The business, excitement and spectacle will be sacrificed, apparently to stuff a few more bucks in the pockets of the promoters. Only the mayor of Detroit seems happy, and he's been trying to get rid of all those joggers and kite-flyers for years and replace them with a little of Las Vegas.

Unfortunately, I predict the audience for a Grand Prix held on Belle Isle in the shadow of Coleman Young's super slide will quickly dwindle to a herd of terrified deer and an equally small group of spectators, some remembering the grand days when the cars ran on the downtown streets.

Dan McCosh is the automotive editor of Popular Science

## Calculating the interest rates for T bills is difficult

Second of two parts

Many of our clients routinely buy T bills for safety and high yield, but frequently they have difficulty figuring out what they are really getting, this article explains how the "true" yield is calculated on T bills.

Confusion with discount issues

Last week we mentioned that T bills are discount issues. However, a T bill discount does not operate like a retail discount. Furthermore, the discount, or refund, you receive at the time of purchase is merely a refund of the excess price you paid initially, and not a return on your investment. And yet, this "discount" is

the basis for the calculation of the "true yield" you receive on a T bill.

True yield on 3- or 6-month maturity

Bills are sold at a discount. Prices are stated on the basis of 100.

For example, a 9.76-percent discount, 91-day, \$10,000 bill that is priced at \$9,533 would cost \$9,533. However, since you do not know of this price when you first decide to buy the bill, you send a check for \$10,000 to the Federal Reserve Bank.

After the auction, the bank sends you a check for \$26.70 (\$10,000 minus \$9,733.30) representing the price refund. Upon maturity, you will receive a check for \$10,000 in-



finances and you  
**Sid Mittra**

vestment over 91 days. What, then, is your annualized yield?

In order to calculate your true annualized yield, you must use the following simple equation:

$$\text{annualized yield} = \frac{(D \times Y) + (P \times M) \times 100}{P - D}$$

P = the price per \$100

D = \$100 - P

M = days to maturity;

Y = 365 days

For the T bill offering a 9.76-percent discount, the annualized yield is 10.15 percent:

$$\text{annualized yield} = \frac{[(100 - 97.533) \times 365] + [97.533 \times 91]}{100 - 97.533}$$

However, if the 9.76-percent dis-

count was on a 180-day bill, the yield would be just 5.13 percent:

$$\text{annualized yield} = \frac{[(100 - 97.533) \times 365] + [97.533 \times 180]}{100 - 97.533}$$

12-month bills

The above formula can't be used for T bills maturing in more than six months. The reason is that T bills pay simple interest, and there is no compounding.

In contrast, government and corporate bonds pay interest semiannually, and the coupon payments are compounded.

Fortunately, the Treasury reports the annualized yields with the auctioned results, so you don't have to do the compounding yourself.

The good news

The Wall Street Journal and the business section of local newspapers routinely publish annualized yields on T bills. For instance, on May 16,

1988, the following quotation appeared in the Wall Street Journal:

Mat. date bid asked yield discount

9-8 6.32 6.25 6.47

Thus, if you had received a discount rate of 6.25 percent for the Sept. 8 bill, the annualized yield from this investment would have been 6.47 percent.

You can lose on a T bill

Yes, you can. If interest rates rise prior to the issues maturity, the market price of the T bill will decline. So, if you sell before maturity you will have to sell at a discount.

This interest-rate risk must always be born in mind when investing in seemingly risk-free T bills.

Sid Mittra is a professor of management at Oakland University and proprietor of Coordinated Financial Planning.

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