The Velocity of Money Multiplier Effect (What Could be Yours is Theirs)

Called "one of the most important concepts in modern macroeconomics"*, velocity of money is the movement of money from one person or entity to another, and is measured by economists as an indicator of national economic health. It is an indicator used in the Federal Reserve Board's management of Monetary Policy. In effect, the movement of money is the same as having more money; hence the term "velocity of money multiplier effect", or, "VMME". Since individuals, families, and businesses each have a "personal economy", "VMME" is equally important to their economic health.

Financial institutions do not produce or manufacture anything; they are "middle-men" between a depositor/investor and his or her money. Financial institutions compete to attract and hold money in various financial products for as long as possible, and give it back as slow as possible through the knowledgeable use of tax laws and penalties. This keeps "VMME" in their control. So, financial institutions promote the "storage" or "box" approach to personal finances.

When we use the "box" approach, we abandon opportunities for velocity, which are, in effect, turned over to the financial institutions. For example, banks have a very small percentage of depositor's money in the vault. On average, during the time the typical bank customer has money deposited in an account, the bank turns that money over seven times (velocities). In return, the depositor receives one "turn" (velocity) on that money. So, banks make much more on our money than we do.

When we see that virtually all financial information presented by the media flows from the financial institutions through their experts and financial planners, can we expect that they will they inform us of the economics of velocity? By doing so, they would diminish their control over our money.

Personal Financial Economics promotes the positioning of money to allow two, three, or more "turns" (velocities) on our own money simultaneously. This concept increases benefits and money supply simultaneously, with no increased risk and no additional out of pocket cost.

Referred to as the "process" approach to personal finances, it could be described as a "heart and arteries" type of system. Money moves through a series of products and services, doing multiple jobs at once. Each dollar becomes more valuable, increasing the effective rate of return significantly

*References:

Economics, Paul A. Samuelson and William D. Nordhaus

This excerpt describes the "interest equation" in technical, economic terms. The unique features of a properly structured whole life insurance contract, empowers us to increase the velocity of our own money, rather than giving that power to banks. We can effectively achieve multiple "turns" on our own money simultaneously…

- ***John Ensley***