

# BOND MARKET DECIMAL DUST

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23 years a *Forbes* columnist

AAll Los Angeles

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**FROM THE PIT OF THE  
CREDIT CRISIS TO THE  
EUPHORIA OF THE TRUMP  
BUMP, BIG CHANGES ARE  
AHEAD FOR BOND  
INVESTORS**



## ACADEMICS

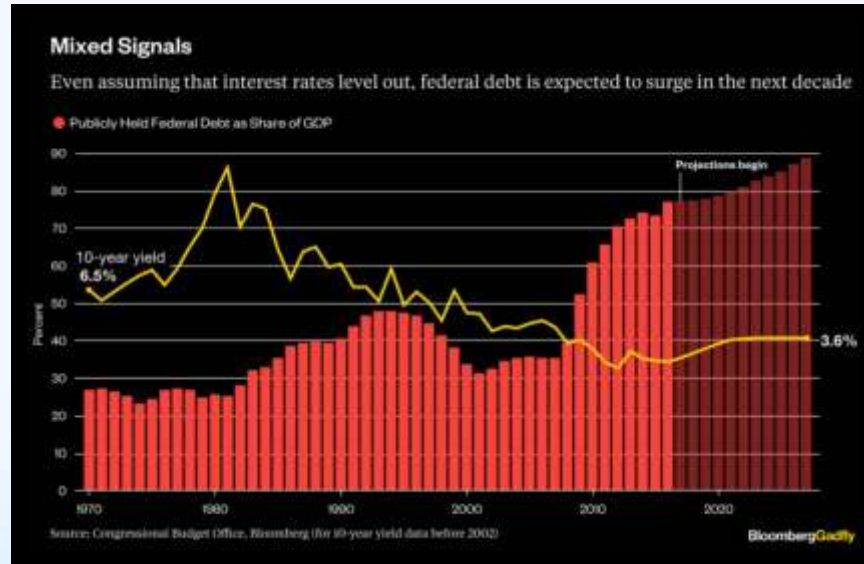
### CENTRAL BANKERS: THOSE ACADEMICS AND THEIR GREAT EXPERIMENT WITH ZERO INTEREST RATES



# YIELD ON THE 10 YEAR US TREASURY BOND FROM 1960 TO PRESENT



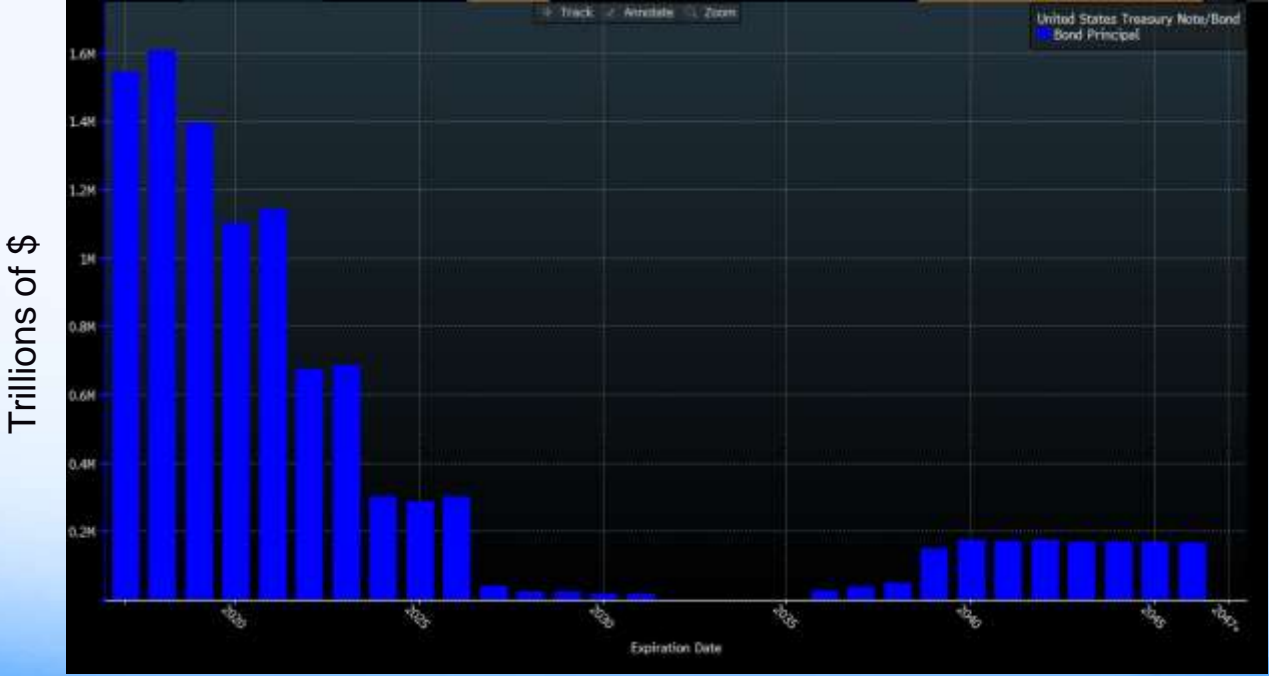
# WORRIES, CONCERNS AND ANXIETY OVER HIGHER INTEREST RATES AND OUR FEDERAL DEBT



**Nice chart, but the CBO has based it on an average annual 2.1% GDP growth rate 2016-2018 and 1.9% GDP growth during the second half of the 10 year period.**

*Congressional Budget Office*

# US TREASURY DEBT DISTRIBUTION



2020

2025

2030

2035

2040

2045

2047

## EQUATION FOR TOTAL RETURN

$$\text{Total Return} = \frac{\left( \begin{array}{l} \text{(End Value of Principal + Coupon Interest + Compound Interest)} \\ - \text{(Taxes + Fees/Commission)} \\ - \text{Beginning Value of Principal} \end{array} \right)}{\text{Beginning Value of Principal}} \times 100$$

# WHAT SHOULD A WORRIED BOND INVESTOR DO?



- Do not invest the same way as you have in the past
- Buy some CPI and 3 month LIBOR floating rate corporate bonds rather than TIPS
- Invest in shorter duration bond funds and ETFs
- Invest in individual bonds with maturities of 3, 5, 7, and 9 years
- Invest in one or two Rising Rate ETFs that hedge their interest rate risk.



# STOP WORRYING AND DO SOMETHING

**Nustar Logistics LP:** Focuses on just 3 segments: Petroleum products storage, transportation, asphalt/fuels marketing

Looks like a preferred but is a Fixed to Float Subordinated Note

CUSIP: 67059T204

Rated: Ba2, BB- B+

7.625% Fixed until January 15, 2018, then 6.734% Plus 3-month LIBOR

Price: 26 3.94% yield to Jan. 2018 call, 7.33% to Maturity 2043

## **Compare to Nustar Logistics LP Bonds**

4.80% due Sept. 1, 2020 \$450 million outstanding

Rated: Ba1, BB+, BB

CUSIP: 67059TAB1

4.00% Yield to Maturity

29) Bond Description 20) Issuer Description

Pages	Issuer Information	Identifiers
11) Bond Info	Issuer MORGAN STANLEY	ID Number EI5929779
12) Addtl Info	Industry Financial Services	CUSIP 61745E5R8
13) Covenants	<b>Security Information</b>	ISIN US61745E5R86
14) Guarantors	Mkt Iss Domestic MTN Inflation Linked-YoY	<b>Bond Ratings</b>
15) Bond Ratings	Country US Currency USD	Moody's A3
16) Identifiers	Rank Sr Unsecured Series MTN	S&P BBB+
17) Exchanges	Coupon 3.463780 Type Fixed to...	Fitch A
18) Inv Parties	Cpn Freq Monthly	Composite A-
19) Fees, Restrict	Day Cnt ISDA ACT/ACT Iss Price 100.000...	<b>Issuance &amp; Trading</b>
20) Schedules	Maturity 03/15/2021	Amt Issued/Outstanding
21) Coupons	BULLET	USD 30,000.00 (M) /
<b>Quick Links</b>	Iss Sprd	USD 30,000.00 (M)
32) ALLQ Pricing	Calc Type (1007) SPLIT AI FLOATER	Min Piece/Increment
33) QRD Quote Recap	Announcement Date 02/25/2011	1,000.00 / 1,000.00
34) TDH Trade Hist	Interest Accrual Date 03/15/2011	Par Amount 1,000.00
35) CACS Corp Action	1st Settle Date 03/15/2011	Book Runner MS
36) CF Prospectus	1st Coupon Date 04/15/2011	Reporting TRACE
37) CN Sec News		
38) HDS Holders		
39) VPR Underly Info		
66) Send Bond		

25) Bond Description 26) Issuer Description

- Pages
- 11) Bond Info
  - 12) Addtl Info
  - 13) Covenants
  - 14) Guarantors
  - 15) Bond Ratings
  - 16) Identifiers
  - 17) Exchanges
  - 18) Inv Parties
  - 19) Fees, Restrict
  - 20) Schedules
  - 21) Coupons
- Quick Links
- 32) ALLQ Pricing
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  - 36) CF Prospectus
  - 37) CN Sec News
  - 38) HDS Holders
  - 39) VPR Underly Info
- 66) Send Bond

Coupons

51) Coupons 52) Inflation 59) FRN Formula

Benchmark	CPI YOY	Benchmark Freq	
Fix Frequency	Monthly	Next Coupon Date	01/15/2017
Paying Agent		Prev Coupon Date	12/15/2016
Pay Calendars	US	Cap	8
Refix Calendars	FD	Floor	0
First Irreg Cpn	Normal	Margin	+200
Last Irreg Cpn	Normal	Reset Days Prior	0
		Current Coupon	3.46378
		Lockout	
		Cpn Conv	Foll-Unadj Cpn Freq Monthly

Table View  Chart View

Past Coupon Resets		
Accrual Start		Rate
01/15/2017		
12/15/2016		3.46378
11/15/2016		3.06455
10/15/2016		2.83510
09/15/2016		3.00571
08/15/2016		3.02227
07/15/2016		3.12511

Margin History	
Date	Margin

2/15/2017 3.70%

C Float 09/01/23 \$102.067

+.037

-- bp vs

At 11:35

Vol 5.4MM

DM .000

Source TRMT

C Float 09/01/23 Corp

97) Settings -

Page 1/11 Security Description: Bond

94) Notes

25) Bond Description	26) Issuer Description	
<b>Pages</b>	<b>Issuer Information</b>	<b>Identifiers</b>
11) Bond Info	Name CITIGROUP INC	ID Number QZ2972573
12) Addtl Info	Industry Diversified Banks	CUSIP 172967KX8
13) Covenants	<b>Security Information</b>	ISIN US172967KX80
14) Guarantors	Mkt Iss Global	<b>Bond Ratings</b>
15) Bond Ratings	Country US Currency USD	Moody's Baa1
16) Identifiers	Rank Sr Unsecured Series	S&P BBB+
17) Exchanges	Coupon 2.360670 Type Floating	Fitch A
18) Inv Parties	Formula QUARTLY US LIBOR +143.0000	Composite BBB+
19) Fees, Restrict	Day Cnt ACT/360 Iss Price 99.68400	<b>Issuance &amp; Trading</b>
20) Schedules	Maturity 09/01/2023	Amt Issued/Outstanding
21) Coupons	CALL 09/01/22@100.00	USD 2,000,000.00 (M) /
<b>Quick Links</b>	<b>Iss Sprd</b>	USD 2,000,000.00 (M)
32) ALLQ Pricing	<b>Calc Type (21) FLOAT RATE NOTE</b>	<b>Min Piece/Increment</b>
33) QRD Quote Recap	Announcement Date 08/19/2016	1,000.00 / 1,000.00
34) TDH Trade Hist	Interest Accrual Date 08/26/2016	Par Amount 1,000.00
35) CACS Corp Action	1st Settle Date 08/26/2016	Book Runner CITI-sole
36) CF Prospectus	1st Coupon Date 12/01/2016	Reporting TRACE
37) CN Sec News	Offer spread is 3mt +143	
38) HDS Holders		
39) VPR Underly Info		
66) Send Bond		

SN 762759 EST GMT-5:00 H451-5267-0 03-Jan-2017 13:07:41

Next reset March 1st

# YOU PAY A PRICE FOR LIQUIDITY

## *LIBOR FLOATERS*

Goldman Sachs Group  
Senior Unsecured  
Rated: A3, BBB+, A  
CUSIP: 38143U8G9 Due 2/25/2021  
\$600 million outstanding, Quarterly Pay  
LIBOR +177, 2.70% Next reset 2/27/17

CUSIP: 38141GWD2 Due 4/26/2022  
\$1 billion outstanding  
LIBOR +111, 2.14% Next reset 4/26/17

# QUESTIONS YOU SHOULD BE ASKING



- Should we own a Floating Rate fund? Yes
- Should we own a TIPS fund? Maybe
- Should we own a leveraged Floating Rate fund? No
- Should our bond duration for 2017 be short? Yes
- When do we lengthen duration?

# SINK HOLES

Are there any bond sink holes of which we should be wary?

Special Mandatory Redemption Provisions: The details matter...read the fine print in the Prospectus.



# Bond Calls Hand Lam Investors Losses

■ Lam Research 3.9 percent coupon 10-year bond ■ Lam Research 3.45 percent coupon 7-year bond



Source: Trace

Bloomberg



# GOOD BOND IDEAS ARE HARD TO FIND

**United Continental Holdings**  
**6% due December 1, 2020**  
**\$300 million outstanding**  
**B1, BB-, BB**  
**CUSIP: 910047AG4**  
**3.75% Yield to Maturity**

**United Continental Holdings**  
**5% due Feb. 1, 2024**  
**\$300 million outstanding**  
**B1, BB-, BB**  
**CUSIP: 910047AH2**  
**5.06% Yield to Maturity**

*Need a Place Holder?*  
**American Airlines Group**  
**6.125% due June 1, 2018**  
**\$500 million outstanding**  
**B1, BB-, BB-**  
**CUSIP: 91731VAA4**  
**2.57% Yield to Maturity**

# CORPORATE BOND RECOMMENDATIONS

**EPR Properties: Real Estate Investment Trust that acquires & develops properties leased to entertainment related businesses, megaplex theaters, and entertainment centers**

**5.25% due July 15, 2023  
\$275 million outstanding  
Baa2, BBB-, BBB-  
CUSIP: 26884UAA7  
4.35% Yield to Maturity**

**Lear Corp.: Manufactures auto parts, seating, control electronics, connectors, terminals, etc.**

**4.75% due January 15, 2023  
\$499 million outstanding  
B1, BB-, BB-  
CUSIP: 521865AU9  
2.67% Yield to Worst Call in 2018  
3.95% Yield to Maturity or...**

**5.25% due January 15, 2025  
\$650 million outstanding  
CUSIP: 521865AX3  
3.65% Yield to Worst Call in 2020  
4.25% Yield to Maturity**

# YOU HAVE CHOICES...*LOTS OF CHOICES*

- **Rising Rate Hedged High Yield ETFs:**
  - HYGH 4.64% iShares wait for greater volume
  - HYHG 4.86% Proshares
  - HYZD 5.15% Wisdomtree
- **Rising Rate Hedged Investment Grade ETFs:**
  - IGHG 3.33% Proshares
- **Floating Rate ETFs:**
  - FLOT 1.23% iShares
  - FLRN 1.31% SPDR State Street
- **Floating Rate High Yield Open End Fund:**
  - FFRHX 3.85% Fidelity
- **CPI Floating Rate Bonds**
- **LIBOR Floating Rate Bonds**

# WELCOME TO THE MUNICIPAL BOND ZONE



# DIG DOWN AND RE-THINK EVERYTHING YOU'VE LEARNED ABOUT MUNICIPAL BONDS



## Municipal Bond De Minimis Rule Unraveled



In certain cases the De Minimis Rule changes the tax character of bonds purchased at a market discount.

Having a portion of their municipal return taxed as ordinary income is an unwelcome surprise for bond investors.

The De Minimis Rule is especially relevant in times of rising interest rates.

# **AIDING AND ABETTING MUNICIPAL DYSFUNCTION CAUSES TAX PAYERS TO OWE MORE.**

## **Revenue Yield Curve:**

- 3 Year: 1.72%
- 5 Year: 2.05%
- 10 Year: 2.85%
- 15 year: 3.38%
- 20 Year: 3.65%
- 30 Year: 3.85%

- **ILLINOIS**
- **CHICAGO**
- **DALLAS**
- **HOUSTON**
- **COUNTIES**
- **SMALL AND LARGE  
CITIES**

# SOME MUNI NO NO'S /SOME MUNI YES ANSWERS

## No No's

- No Detroit or Anything in Michigan
- No Chicago Bonds
- No Illinois Bonds
- No Puerto Rico bonds
- **No GOs from PROBLEM AREAS**
- **No PENSION OBLIGATION bonds (taxable)**
- **No SALES TAX REVENUE bonds**
- **No bonds NEEDING ANNUAL APPROPRIATIONS**
- **No stadium, Parking, Coliseum, Museum, Prison, Court House, Police HQ bonds**

## Yes

- **Yes on Senior Lien Airport Revenue bonds**
- **Yes on Water & Sewers in GOOD AREAS**
- **Yes on ESSENTIAL REVENUE bonds**
- **Yes on PERSONAL INCOME TAX bonds (PIT)**
- **Toll Bridges**



# A SHALLOW DIVE

Los Angeles Municipal Improvement Revenue Bonds

3.00% Due May 1, 2026 callable May 1, 2024

CUSIP: 544587A73

Rated: A+, A+

Lease Revenue bonds for 3 Los Angeles buildings:

- Central Library of Downtown LA
- Playa Vista Fire Station
- San Pedro Municipal Building
- 2.65% to 2024 call
- 2.781% to Maturity

*Annual appropriations needed*

# MUNICIPALS: FERRET OUT THE DEALS

## Mandatory Put Bonds:

- Bay Area Toll Authority
- San Francisco Bay Area Toll Bridge
- Revenue Bonds

3.00% due April 1, 2047

Mandatory Put April 1, 2026

Stepped Up Rate: If there is a Failed Tender:

SIFMA +2.50%

SIFMA +5.00%

# COME FLY WITH ME AIRPORT REVENUE BONDS

- **Business Travel Spending**
- **Airport Debt Loads**
- **Debt Service Coverage**
- **Days of Cash on Hand**
- **(average 560 days)**



# DISSECT THE AIRPORT REVENUE CONCEPT

- Revenues through concessions
- When you rent a car
- Car rental facilities
- Duty-free shops
- Taxi drop off and pickup (\$4.00)
- Rent for the space airlines use
- Landing fees assessed per flight
- Uber and Lyft for the use of roadway and curb space
- Luggage trolleys (\$5.00/trolley)
- Passenger facility charge (LAX \$4.50/person)



***Major airports are in great financial shape***

# AIRPORTS ARE MAKING MONEY GALORE

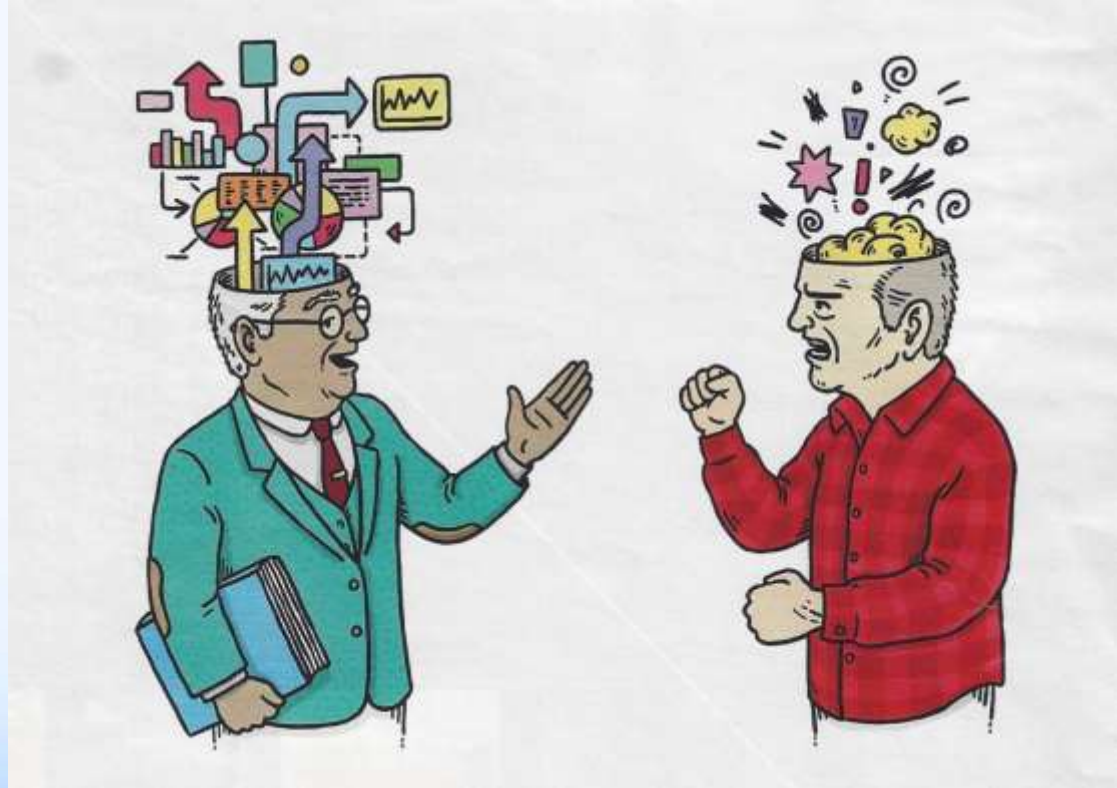


# MUNICIPAL RECOMMENDATIONS

## Buy Airport Revenue Bonds:

- From Major Hubs (no regionals)
- Buy Senior Liens
- No Sinking Funds

1. Atlanta International
2. Los Angeles International
3. O'Hare
4. Dallas Fort Worth
5. JFK
6. Denver International
7. San Francisco International
8. Charlotte Douglas International
9. McCarran International
10. Phoenix Sky Harbor
11. Miami International



# ***Envision Capital Management, Inc.***

*Fixed Income Money Managers*

**MINIMUM ACCOUNT SIZE \$500,000**

## **FEES:**

- **MUNICIPALS:** .43%
- **INVESTMENT GRADE CORPORATES:** .60%
- **SPLIT-RATED CORPORATES:** .75%
- **HIGH YIELD:** 1.00%

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