

Bond Investing in Our Crazy New World

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When the Stimulus Party Is Over, Beware of the Hangover...

Junk bond
funds up over
40%

Credit spreads narrow

Dividend cuts &
reductions

Little inflation

High Unemployment

US Dollar

Treasury auctions—no
problem

Equities on a tear

Commodity prices
pointing to a V-
shaped recovery

Accommodation
is everywhere

Defaults

Liquidity everywhere

Emerging
markets on
fire

Interest rates near
record lows

Cost of Energy

Muni yields at 42
year lows



All markets have had huge
runs... Where do you
rebalance?



Balance Sheet Repair? The Tale of Two Markets

Corporates: Share repurchases 1997 – 2008

**\$2.4 Trillion Spent, LBO's,
Terrible Debt Transactions**

That Was Then, Now: No more ego driven buy backs
No more insane debt driven acquisitions
Issuance of equity to pay down debt
More conservative stewardship

**Municipal Bonds: Not a Pretty Story
The Great Disconnect**



What We've Seen Happening: Yields Dropping!



Municipals

- The BABS effect: Reduced tax-exempt issuance
- Deteriorating credit quality, yet yields drop!
- It's all about supply and demand
- Be defensive

Corporates

- New issuance snatched up by institutions
- It's become a private placement market
- Stay away from: Smart Notes, Direct Notes, Internotes
- Spreads continue to narrow

Investment Grade Industrial Yield-to-Worst (%)



All-in Yields are Near Record Lows

What About New Purchases?

Stick with:

- Short bonds with low premiums
- Large issue size
- Study debt distribution and balance sheet
- Low chance of government interference



Fisher Scientific 6.125% due 7.1.15

Issue Size \$500 Million

Cusip: 338032BB0 Rating: Baa3/BBB+

Price: \$103.80 YTW: 4.74%

Call: 7.1.10 @ 103.063

Poison Put @ 101%

Know Your Capital Structure

Know Your Debt Distribution

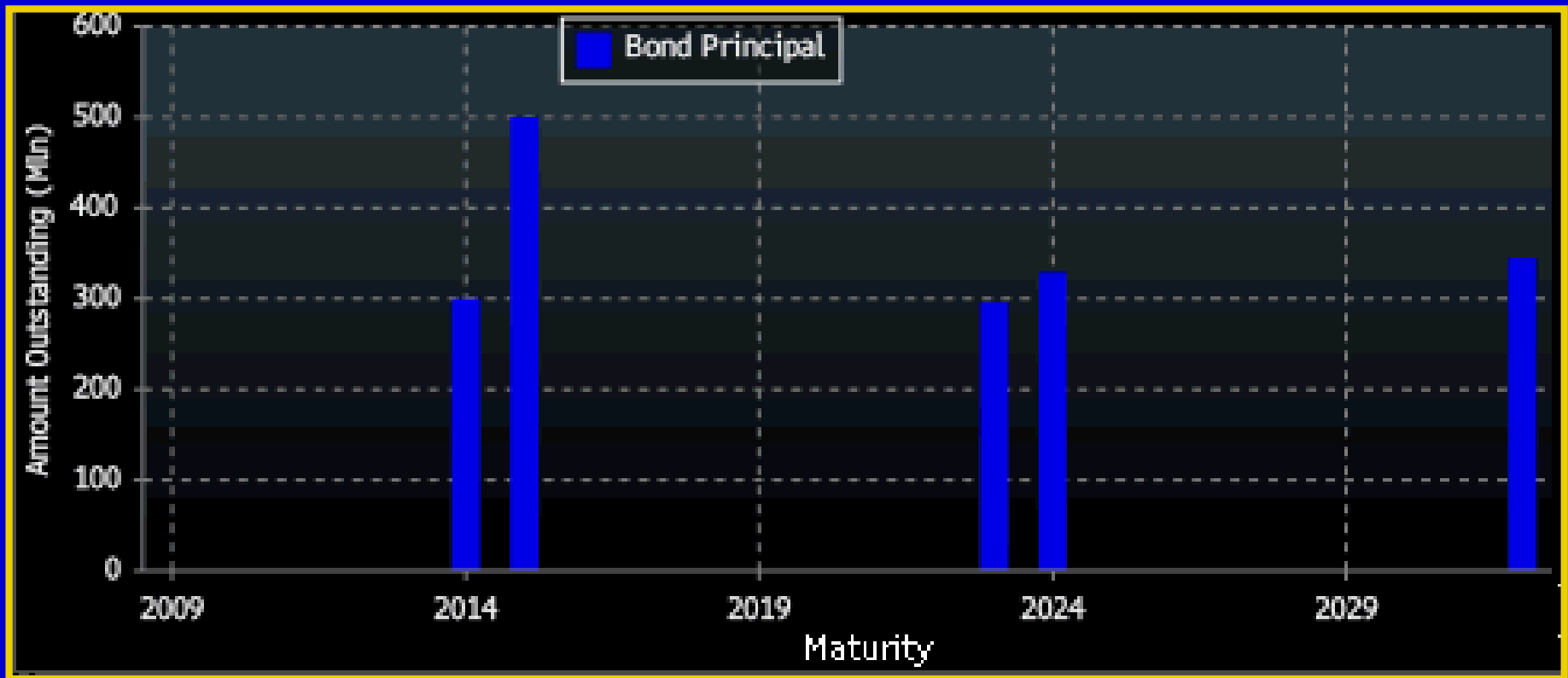


The more complicated the capital structure the more yield you should earn.

Debt Distribution

**Fisher Scientific 6.125% due 7.1.15
callable 7.10.10 @ 103.06**

These bonds are at the front of the line!





Selling a Bond:

Sell 750,000 Jefferies Group Inc. (CUSIP 472319AA0)

7.75% due 3.15.12

Bids:

Morgan Stanley 105.75 +370/3yr	JP Morgan 106.46 +338/3yr	Bank of Oklahoma 107 +315/3yr	Jefferies 107.625 +287/3yr	Key Bank 107.453 +295/3yr	BNY/Mellon 106.759 +325/3yr	Fidelity Pass
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Difference Between High & Low 1.875 Points

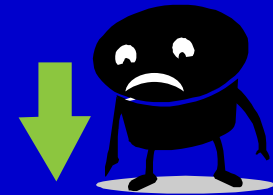
On 750,000 = \$14,062.50

The Muni Market:

Where we were.....

And where we are.....

Generic Municipal 'A' Yields



	<u>11/08</u>		<u>5/09</u>		<u>NOW!</u>
1 YR	2.39%	→	2.25%	→	1.45%
5YR	3.74%	→	3.42%	→	3.05%
10 YR	4.86%	→	4.25%	→	4.25%

How does your state compare with California?



Do You Know What Your Bonds Are?

Westchester County NY Retirement Care:
Kendal on Hudson Revenue Bonds
5.375% Due 1/1/2011

Red Flags:



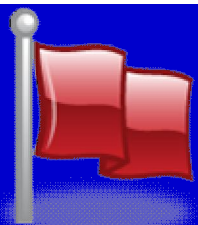
- Not Rated



- Debt Service Coverage Requirement = 1.2

As of June 2008, Coverage = .47





Most Recent TRACE Trades:

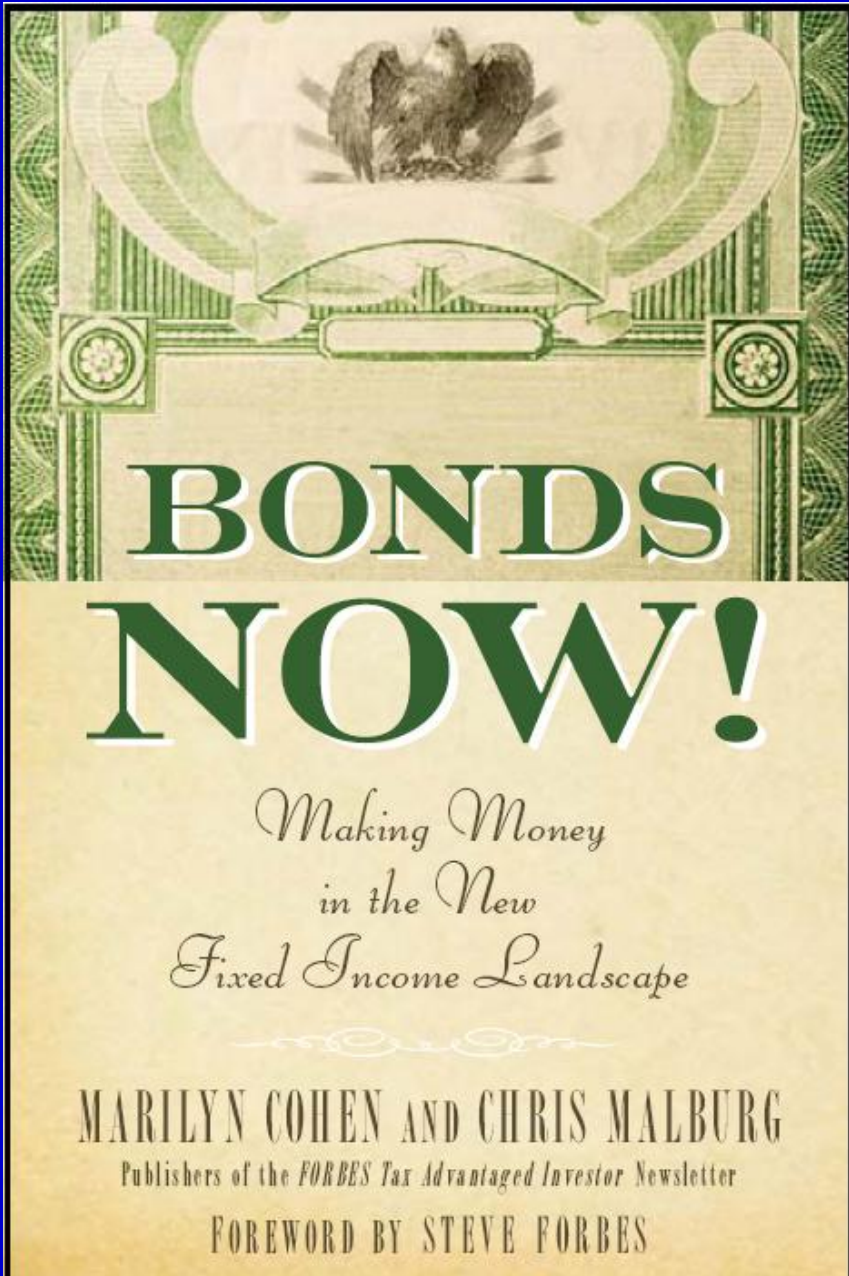
6% and 7.21%!

For a 2011 Maturing Muni Bond?

That's Junk!

<u>Trade Date/Time</u> ▼	<u>Settlement Date</u>	<u>Price (%)</u>	<u>Yield (%)</u>	<u>Trade Amt (\$)</u>	<u>Trade Type</u>
03/24/2009 : 12:12 PM	03/27/2009	98.96	6	50,000	Customer bought
03/24/2009 : 12:07 PM	03/27/2009	97	7.212	50,000	Customer sold
03/10/2006 : 09:11 AM	03/13/2006	102	4.901	10,000	Customer bought
03/10/2006 : 09:08 AM	03/13/2006	100.50	5.254	10,000	Customer sold
04/29/2005 : 10:29 AM	05/04/2005	104.09	4.546	10,000	Customer bought
04/28/2005 : 02:41 PM		101.09		10,000	Inter-dealer Trade
04/28/2005 : 02:36 PM	05/03/2005	101.09	5.149	10,000	Customer sold
04/28/2005 : 02:33 PM		102.09		10,000	Inter-dealer Trade
04/27/2005 : 03:49 PM	05/02/2005	104.3250	4.5	25,000	Customer bought
04/27/2005 : 01:37 PM	05/02/2005	104.3250	4.5	25,000	Customer bought
04/19/2005 : 01:41 PM	04/22/2005	101	5.168	50,000	Customer sold

Recommendations



Jefferies Group

5.50% 3.15.16 CUSIP: 472319AB8

Rated: Baa2/BBB

Leucadia National

7.00% 8.15.13 CUSIP: 527288AS3

Rated: B1/BB+

Textron Inc.

5.60% 12.1.17 CUSIP 883203BL4

Rated: Baa3/BBB-

Alcoa Inc.

6.75% 7.15.18 CUSIP 013817AS0

Rated: Baa3/BBB-

ETF's:

ISHG iShares 1-3 year Intl Treasury

IGOV iShares S&P Intl Treasury

Dollar Bearish

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Envision Capital Management, Inc.

Fixed Income Money Managers

Minimum Account Size \$500,000

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Municipal's	.375%
Investment Grade Corporates	.50%
High Yield	1%

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