

The Bond Market Went from Famine to Feast...Now What?

**AAII Silicon Valley
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Marilyn Cohen

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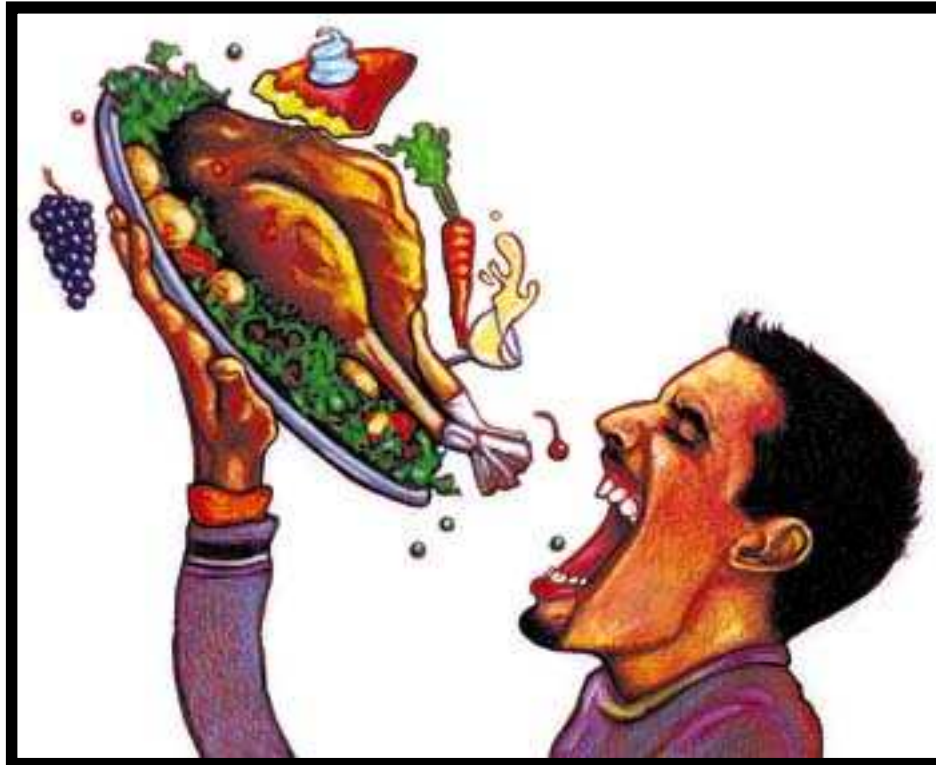
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The feast of 2009...investors gorged on bond funds of all kinds.

In 2009 the Stampede Was On



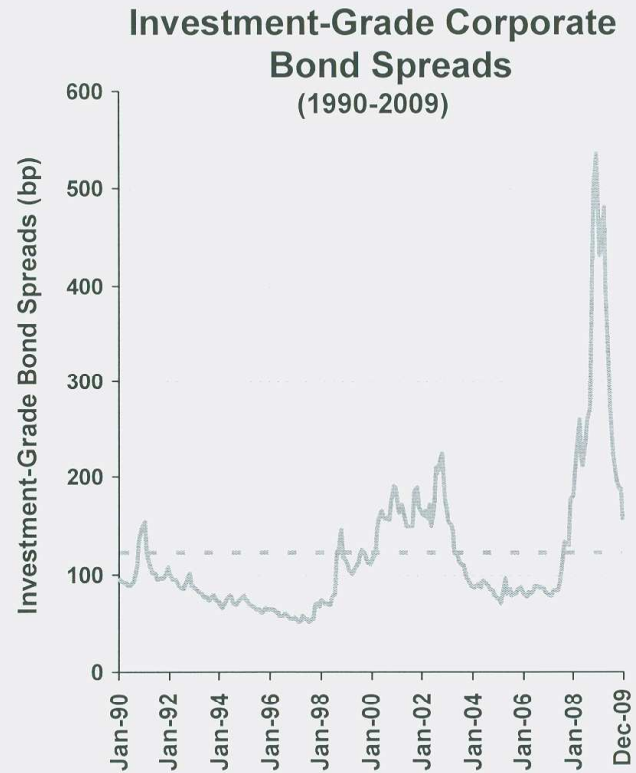
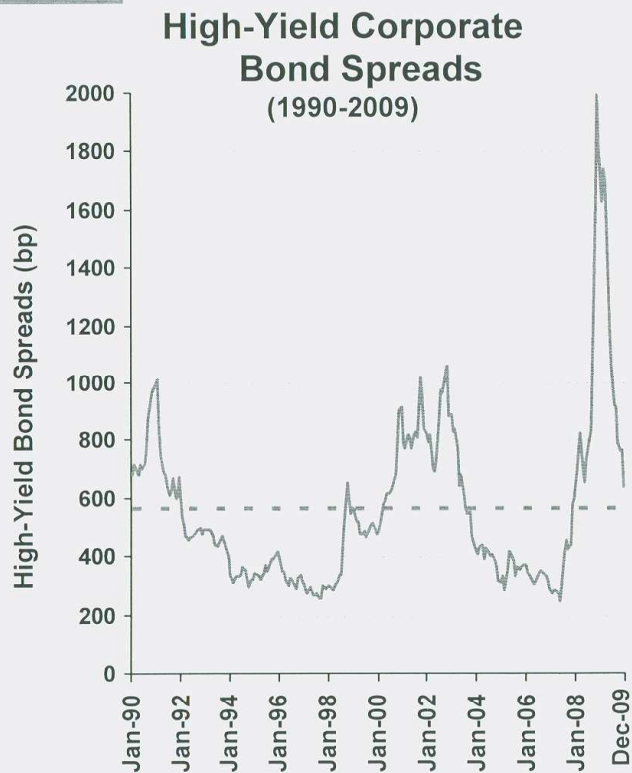


Low interest rates create asset bubbles...

Are we there yet? Probably close...



Corporate Bond Yield Spreads Fell From Record Highs to Near Long-Term Averages



Past performance is no guarantee of future results. You cannot invest directly in an index. Please refer to the appendix for important index information.
Source: Merrill Lynch®, Barclays Capital, FMRCo (MARE) as of 12/31/09. High Yield represented by Merrill Lynch High Yield Master II Index; Investment Grade represented by Barclays Capital Credit Bond Index. Spread is index Option-Adjusted Spread (OAS).

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Range 03/31/80 - 12/31/09 Upper Mid Yield Mov. Avgs Currency USD

Period Quarterly Events



1980-1984 1985-1989 1990-1994 1995-1999 12/31/01 04 2005-2009 20

Australia	61	2	9777	8600	Brazil	5511	3048	4500	Europe	44	20	7330	7500	Germany	49	69	9204	1210	Hong Kong	852	2977	6000
Japan	81	3	3201	8900	Singapore	65	6212	1000	U.S.	1	212	318	2000	Copyright 2010 Bloomberg Finance L.P. H263-305-0 23-Jan-10 19:17:05								

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Range 12/31/80 - 12/31/09 Upper Mid Yield Mov. Avgs Currency USD

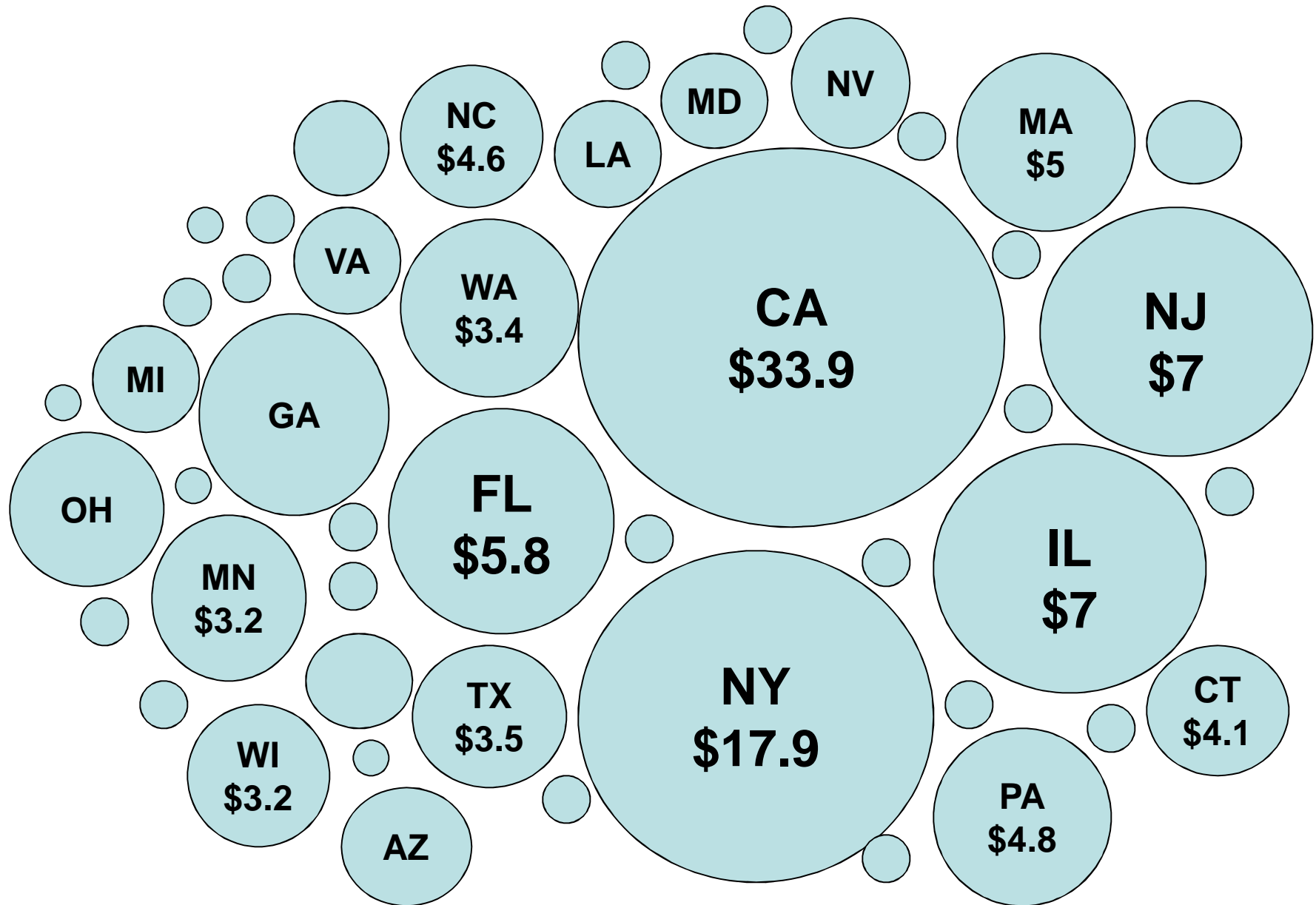
Period Yearly Events



1980-1984	1985-1989	1990-1994	1995-1999	2000-2004	2005-2009	20
Australia 61 2 9777 8600	Brazil 5511 3048 4500	Europe 44 20 7330 7500	Germany 49 69 9204 1210	Hong Kong 852 2977 6000		
Japan 81 3 3201 8900	Singapore 65 6212 1000	U.S. 1 212 318 2000				

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State Budget Deficits: \$\$\$ Billions



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Muni GBY

<TAB> to Select Data for Different Dates

G.O. MUNICIPAL BONDS

BLOOMBERG DAILY GENERIC OAS YIELDS

WEDNESDAY CLOSE DATE: 3/ 3/10

AAA MUNICIPAL
AS % OF
CURRENT US GOVT.'S

	AAA (SECTOR 49)	AA (SECT.104)	A (SECT.159)	BAA1 (SECT.631)	
1 YR 2011	0.27	0.52	1.04	1.59	80.37
2 YR 2012	0.57	0.84	1.34	1.91	67.86
3 YR 2013	0.83	1.18	1.7	2.32	60.56
4 YR 2014	1.12	1.56	2.1	2.82	60.15
5 YR 2015	1.49	1.94	2.49	3.31	65.08
7 YR 2017	2.26	2.64	3.24	4.1	73.98
9 YR 2019	2.78	3.24	3.84	4.56	81.36
10 YR 2020	3.02	3.46	4.07	4.7	83.94
12 YR 2022	3.46	3.81	4.41	4.97	91.72
14 YR 2024	3.73	4.07	4.62	5.21	94.51
15 YR 2025	3.8	4.27	4.68	5.24	94.20
17 YR 2027	3.92	4.49	4.79	5.33	93.15
19 YR 2029	4.03	4.64	4.9	6.13	91.95
20 YR 2030	4.09	4 ³ / ₄	4.97	6.7	91.50
25 YR 2035	4.4	5.14	5.4	7.26	97.66
30 YR 2040	4.44	5.24	5.48	7.26	97.77

Be a Bond Collector



Yield Kicks Up With Muni Kickers!

- Often Higher Yields than Non-Callables
- Again, Uncertain Maturity Adds Yield!

Example:

Seattle, WA Municipal Light and Power

5.25% due 3/1/15 Callable 3/1/11

Price \$104.479

Yield to '11 Call: 1.30%

Yield to '15 Maturity: 4.50%



Give me a Call!

- Corporate Callables Have Yield Benefits
- Investor Flexibility Can Boost Returns
- Investors are Compensated for Uncertainty

Example:

Premcor Refining (Valero)

7.5% due 6/15/15 Callable 6/15/10

Price \$102.80

Yield to '10 Call: 3.18%

Yield to '15 Maturity: 6.86%



Take Charge of Your Bonds!

- **Be a proactive buyer**
- **Do your research**
- **Set your parameters**
- **Stay in control**
- **Be tough**



Stick To Your Investment Discipline

Add to Your Collection..



1. Select winners from your preferred industry
2. Examine TRACE trades
3. Know exactly what you want, not what's offered!
4. Use multiple brokers
5. Set your parameters, be engaged.
 - “I’m looking for 50 Conagra 5.875% due 4/15/14. This is what I will pay”.
6. Be patient



Municipals We Don't Like

- Municipals with Interest Rate Swaps
- Municipals Subject to AMT
- Hospital, Stadium, and Airport Bonds
- States with Budgetary Problems
- High Foreclosure Areas



Municipals We Like

- Texas PSF Bonds
 - (Permanent School Fund)
- School District GO Bonds
 - With State Backing, Intercept Programs
- Essential Service Revenues
 - Sewer and Water
- Kicker Bonds
 - A good way to find yield



Recommendations

Let's Rock n' Roll

**Enterprise Products Partners
EPD**
Pay less than \$33 / 6.70%

**Kinda Morgan Energy Partners
KMP**
Pay less than \$63 / 6.60%

**Energy Transfer Partners LP
ETP**
Pay less than \$47 / 7.64%

**Plains All American Pipeline LP
PAA**
Pay less than \$56 / 6.54%



Slow Swing Dance

Leucadia National
7.00% 8.15.13 CUSIP: 527288AS3
Rated: B1/BB+ 6% Yield to Maturity

Ford Motor Credit
9.875% 8.10.11 CUSIP: 345397VA8
Rated: B2/B- 5% Yield to Maturity

Wynn Las Vegas 1st Mtg.
6.625% 12.1.14 CUSIP 983130AK1
Rated: Ba3/BB+ 7% Yield to Maturity

Goodyear Tire
7.857% 8.15.11 CUSIP 382550AH4
Rated: B2/B+ 4.5% Yield to Maturity



Recommendations

Vienna Waltz

Direct TV

6.375% 6.15.15 CUSIP: 25459HAD7

Rated: Baa3/BBB-

3% Yield to Worst

5.5% Yield to Maturity

Jefferies Group Inc.

5.875% 6.8.14 CUSIP: 472319AD4

Rated: Baa2/BBB

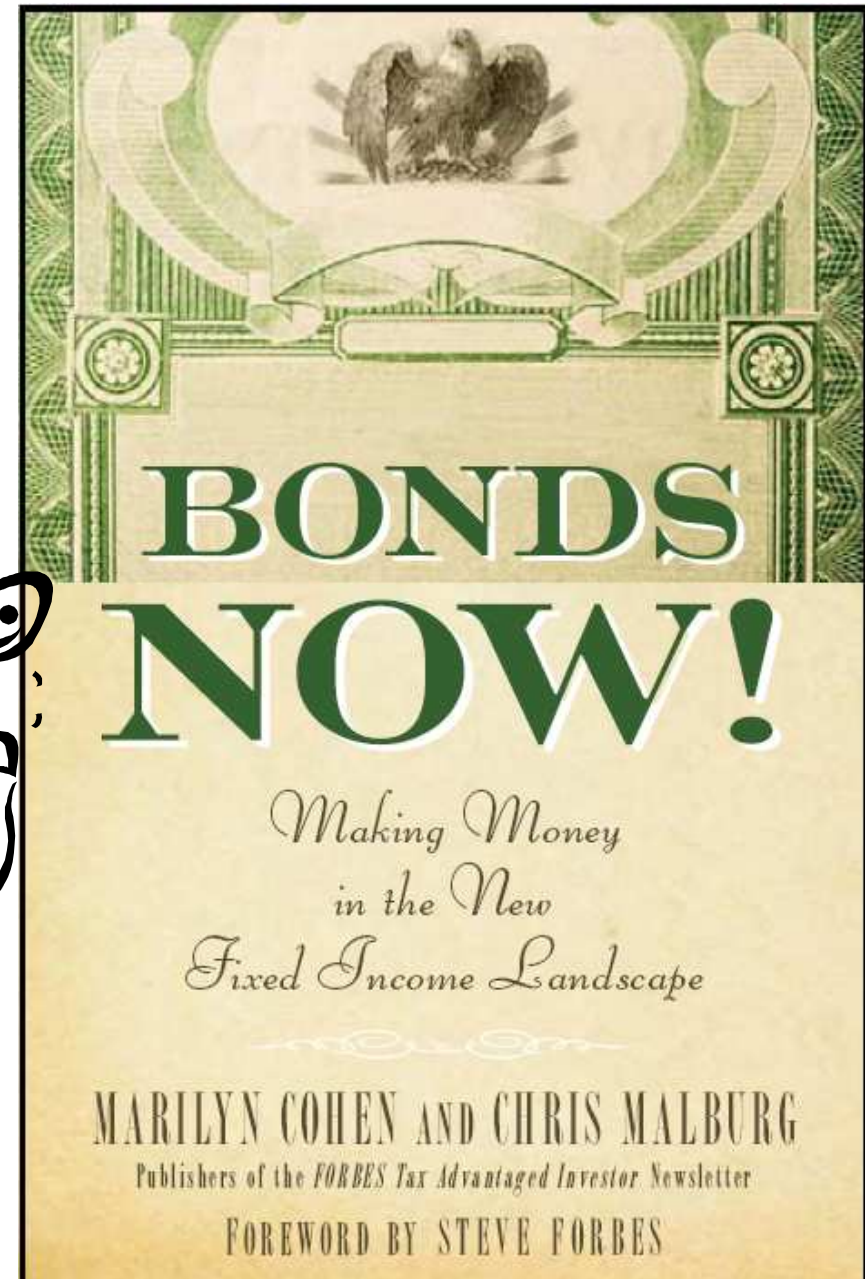
4.5% Yield to Maturity

Textron Inc.

5.60% 12.1.17 CUSIP 883203BL4

Rated: Baa3/BBB-

5.35% Yield to Maturity



Envision Capital Management, Inc.

Fixed Income Money Managers

Minimum Account Size \$500,000

Fees:

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

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