



*BondNews*

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**Dear Hildy,**

Clients have asked us for guidelines to help shape their thinking about creating a portfolio of individual bonds, and judgments on how to manage their existing bond portfolios. Here are a few of our thoughts.

Please let us address your questions by asking [here](#).

Best regards,

Hildy Richelson, Ph.D.  
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### **Bond Portfolio Construction Considerations**

If you are considering an All Bond Portfolio as a means of creating a predictable financial future, or simply wish to buy individual bonds in the context of an investment strategy, here are a few points for you to consider in shaping your plan:

- When we select bond offerings for our clients, we use our experience to recommend only those bonds that meet our quality and price criteria from among all those we receive from our network of brokers and institutions. Generally less than 10% of the offerings we receive meet our first cut as to quality. Getting savings of a few basis points fades in importance compared to the issues around quality.
- At this point in time, inventories of tax-exempt bonds of the quality and yield that we recommend are quite small because of high demand and low supply. Municipalities have been choosing to issue taxable Build America Bonds instead of tax-free bonds for maturities of ten years or longer. We do a wide search to find suitable securities.
- You have a hard decision to make. Do you wish to purchase bonds with a short maturity at a low yield, or do you wish to purchase longer maturity bonds with higher yields? When the yield curve is steep as it is now, there is a big difference between short-term and long-term rates. Any decision must consider not only market conditions, but your own personal situation.

- Unlike stocks, there are no significantly undervalued bonds, although there are overpriced bonds. Bonds line up in a matrix by quality, years to maturity and call provisions. If a bond looks significantly out of line (i.e., low priced), it just means there is an unseen story that is not yet understood. One of the key points to bond buying is what not to buy.
- Whether you decide that a bond ladder or a barbell is an appropriate strategy, consider purchasing some bonds with shorter maturities even if you don't like the yields. The economy seems to be deflating, but the possibility of inflation, or worse, stagflation is ever present.
- Waiting for yields to go up may be very costly because you lose the opportunity of receiving higher current returns and compounding the interest at higher rates. As you know, U.S. interest rates have been falling. Consider the problems that Japan has been having over the last 21 years with its major stock index off about 77 percent from the peak in 1989. Interest rates on 10-year Japan government bonds are now around 1%, from a high of about 5%.
- If you have already purchased securities when rates were significantly higher and your brokerage statement shows that you have significant gains in your individual bonds, bond funds or ETFs, you might consider selling some of your holdings to take some gain. If you purchase individual bonds, you will increase the face value of your holdings, and the bonds will come due at par.

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Our philosophy has always been to seek out highly rated general obligation bonds, and bonds backed by revenue streams from essential services like water or sewer that generally carry the lowest risk of default. These are examples of what we call "plain vanilla" bonds in our bestselling book [Bonds: The Unbeaten Path to Secure Investment Growth](#), (Bloomberg Press, 2007).

Just click on the link below to forward this email to your family, friends and associates who might benefit from seeing this article. We would be pleased to set up a call to discuss our bond investment program with you or anyone you might refer to us.

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