

What Bond Should I Buy? or How to Find Values for My Portfolio!

By **Ronald P. Bernardi**, President

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"What bond should I buy'?" has been one of the most frequently asked questions during my 20-year career as a bond specialist. The simple answer is and always has been: "Don't invest in any bonds until you've given some thought to your overall portfolio investment plan." This is especially true in volatile markets and in difficult markets such as we now find ourselves.

In the first quarter of this year, new issue volume was down about 20% and tax-exempt bond yields remained relatively unchanged from the beginning of the year. Portfolio managers had to work hard, scouring the tax-exempt market to find value.

The market continues to be influenced by tight quality spreads and a fairly flat yield curve beyond the 10-12 year maturity range. Non-callable, longer maturity paper continues to trade at a yield premium (lower yield) than similar bonds that lack call protection. We also have found that the lower duration portfolios tended to do better this past quarter. We believe this trend will continue.

Given the above market factors and because long call protection is less important than it has been in the immediate past, bond portfolios can currently be improved by:

1. Swapping longer term, lower rated issues at a profit and reinvesting the proceeds into higher rated bonds with shorter or similar maturities.

2. Swapping one and two year paper for longer maturities.

3. For some clients, we recommend investment in high premium bonds trading to a shorter call date, provided a yield bonus is secured for the investor.

4. Avoiding expensive non-callable paper.

In our credit analysis process, we take a long-term, value oriented approach, looking for good quality, solid credits with a proven history. We believe these credits are less susceptible to a downturn in the economy. Generally speaking, essential service revenue and tax supported issues meet these criterion. People pay their real estate taxes and water bills... and if they do not, the consequences are swift and severe.

We continue to find value in the essential service revenue (water / sewer / electric) sectors of the market. These types of bonds continue to offer attractive higher yields and good, solid quality.

Market dynamics change. You should be cognizant of these changes and reevaluate your portfolio strategy accordingly. We encourage you to contact your *Bernardi investment Specialist* for a thorough current market evaluation and review of your portfolio.