“Long-term Interest Rates will NOT spike upward.”

There, I've said it. Yes, I believe over the next few years we will see a meandering, upward trend in rates. However, interest rates are not going to make an appreciable spike (i.e. 100-200 basis points) that cannot be successfully managed by using the laddered bond portfolio method.

There are several reasons behind the thinking that interest rates are not going to spike: the Fed, which controls short-term rates and money supply, is managing a delicate balance right now. Economic globalization through improved telecommunications, the internet, etc. and increasing market efficiencies have ushered in unprecedented challenges.

Job growth has been anemic and because of this, wage inflation is almost non-existent. Rising wages (when and if they can be passed along to the consumer) are typically a large component of pricing and therefore inflation.

But commodity prices are out of control you say? Commodity prices are not skyrocketing. As commodities are priced in dollar terms, the fact that the dollar has fallen on global currency markets serves to amplify and exaggerate commodities' prices. The Commodities Research Bureau (CRB) states that over the past two years, oil prices have moved up only about 2% when priced in euros. Historically, this rise is in line with moderate, global economic recovery. Measure the rise in dollars alone, and the CRB index is up almost 40%.

One of the bright spots of our economy has been a robust housing market and the related wealth-effect this has created. This, however, is just another reason that the Fed will be reticent to implement significant rate hikes. Rising rates would cause purchasing power to fall creating a wave of slower home price appreciation and in some markets possibly causing the "bubble" to burst.

Is ballooning government debt cause for concern? This is usually an ingredient in the recipe of rising rates, but here again it is being offset by foreign governments purchases of U.S. debt at almost any level. In addition to massive foreign government purchases of debt, individuals seeking safety in the turmoil of a post 9/11 world are much more accepting of lower yields.

How then do you successfully invest in bonds given these myriad forces? Ladder a portfolio and stay invested.

Do the math. $100,000 invested at 4.00% due in 10-years compared to the "wait and see" investor earning 1.00% in a money market account. If rates increase by a full percentage point within the next year, and the money is then put to work, it will take almost four years for Mr. "Wait and see" just to break even. If rates stay the same or go down, he will never catch up.

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