



The Rep Letter

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WHAT IS A FIXED INCOME INVESTOR TO DO

What is a fixed income investor to do? Presently, that is a very good question, and, unfortunately, there is not a simple answer for the risk adverse (perhaps read retired) client.

In our view, clients holding fixed income positions face three risks. Interest rate risks, that is to say a decline in fixed the market price of fixed income instruments (read bonds) due to rising interest rates. After all, interest rates really have nowhere to go but up. Credit rating risks, a decline in the value of a fixed income instrument due to a decline in the quality (credit rating) of that instrument's issuer. Dollar denomination risk, or the risk that a U.S. dollar denominated bond will decline with a decline in the value of the dollar.

Interest rates have been in decline since August of 1982, and for the past several years maintained at artificially low levels by the United States, and recently other governments. Over this same time frame, leverage, debt, and mismanagement have increased everywhere from Wall Street to Main Street and everywhere in Government from Washington to Podunk. Think about U.S. government debt levels increasing about sixty (yes sixty) percent in the five years of this administration! Think about Detroit, Chicago, California, and Puerto Rico etc. We believe these debt and leverage levels are unsustainable, witness 2007-8. In that instance the U.S., government turned up the cyclic rate of currency printing presses and bailed out numerous nongovernmental enterprises, postponing the eventual day of reckoning. This, of course, sent a terrible message to Wall Street, "go ahead and speculate, government will bail you out!" The character Gordon Gekko had a point when he said, "I once said greed is good, seems now it is legal."

Many of us have clientele holding fixed income instruments, most of which are presently trading at significant premiums. Some of the issuers of these instruments have suffered credit downgrades since the client purchased them. These fixed income situations should be evaluated on an individual basis, considering among other things, issuer credit, client cash flow needs, tax consequences of liquidation and so forth.

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Polar Investment Counsel Inc is a federally registered investment advisory firm and broker dealer, which manages customer accounts on a fee or commission basis. The firm's senior principal, Michael Jordan has over thirty-five years of industry experience.

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