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FINANCIAL FOCUS

Robert Smith believes that low interest rates will cause the bond market to be the next bubble to burst. **Page 5**



Moving from stocks to bonds is fool's game

As interest rates sink to unsustainable levels, bond market is likely to become the next bubble to burst

Attention, all you bond buyers: With investors moving more money from stocks into bonds than ever before, you are slowly playing a fool's game as rates sink further to unsustainably low levels.

IBM, the world's biggest computer services provider, just sold \$1.5 billion of three-year notes at 1 percent and Johnson & Johnson sold \$500 million of 10-year notes at 2.95 percent. Do you really think interest rates can drop much lower?

The Chinese don't. As the world's largest owner of U.S. Treasuries, they have reduced their holdings of U.S. government debt by \$72.7 billion, or nearly 8 percent. So while you were buying more, they are buying less. As my good friend and client Pat Nichols said, "The bond market is the next bubble."

The number one question for fixed-income investors should be: Where do I go now? Now that the supply of sleep-at-night quality bonds has collapsed due to deleveraging, you must get out of the "box" — Wall Street's straight, vanilla stock-bond mutual fund answer to every question. Otherwise, you run the very real risk of being crucified on a cross of low yields and trillion-dollar government debt.



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Robert Smith

To avoid this, you must consider alternative investments, preferably those that work like inflation-protected bonds and drive increasing yields over their lifetime. This is what makes direct cash investments in Tenant-in-Common or Delaware Statutory Trust properties so attractive to fixed-income investors now.

Investment in this type of asset can provide your portfolio with critical diversification tied to substantive bricks and mortar. As a hard asset, it may also provide a hedge against future inflation. It is a non-correlating asset to the stock market. It generates passive income. It provides cash flow on a monthly basis and unlike bonds, it can increase over time. Capital appreciation is also possible at time of sale.

Finally, there are significant tax advantages associated with these investments by way of depreciation and other tax deductions. This can provide attractive tax-equivalent yields. In a world of

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rising taxes and corporate debt of 1 to 3 percent, this bears serious consideration.

However, you are not likely to find these investments at a major wire house (Merrill Lynch, et al). Because of they are non-traditional and limited in size, their provenance belongs primarily to independent broker-dealers.

We are navigating uncharted financial waters. As Alan Greenspan said the other day, "We have never been here before." He's referring to the unprecedented levels of debt now being experiencing in the United States. I'll add to that by noting that even our most knowledgeable experts don't know what the long-term consequences of these decisions and actions may be. We are pushing and pulling levers that have implications we don't understand fully. Consequently, conventional or "inside the box" solutions are unlikely to work.

There are advantages to outside-the-box thinking.

By necessity, most of the larger brokerage firms become trend followers, not trend anticipators.

Large firms make a lot of money for themselves, but they don't have a very good track record of making money for clients. Any financial representative who substantially thinks on his or her own and creates a somewhat different product mix — one that will serve investors well — either eventually opts out of that type of environment or is pushed out. They may decide, "I'll go hang my shingle with an independent broker-dealer who doesn't create product and who doesn't push product, so I can make those decisions myself."

Large firms typically follow retail investors rather than try to direct them. They're adding fuel to the fire. A large wire firm maintains revenue stream by giving people what they want rather than directing people to where they should go.

With an independent firm, you have access to boutique products that simply are not found in a major firm's distribution channels. Anything that enters a larger firm must be of sufficient size to be distributable and repeatable for thousands and thou-

sands of brokers and transactions. Anything smaller is simply 'not there' for them, because it can't be accomplished profitably.

Lastly, when you're in a rip-roaring bull market because the economy is growing by leaps and bounds, every asset goes up in value. You don't have to be particularly discriminating with your money. In that kind of environment a shotgun approach can work for awhile. But when the economy drags bottom, a more targeted approach to asset management — a rifle shot — is required. Don't kid yourself: specific product selection will increase the likelihood of making money. You have access to a wider variety of products with an independent broker-dealer than with a traditional major firm.

If Wall Street won't let your financial representative out of the box, then you must liberate yourself. You know something's wrong. Don't wait for external "professional" validation. Go with your gut — it usually pays.

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