

# **The Best Alternatives to Bond Funds**

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**September 2013**

**AAII Puget Sound**

# FALSE ENDINGS AND TRUE VALUES

**ALL GOOD ACTION**-adventure authors like Lee Child, Tom Clancy and the late Vince Flynn use the false-ending technique. Just when the reader thinks the bad guys are caught or the bomb has been defused, something even more catastrophic happens. And once again the game is afoot.

The bond market has been following this exact script. Quantitative easing and the Federal Reserve's \$85 billion monthly bond-buying spree made investors feel safe. They intellectually knew interest rates were artificially low, but they still felt safe. Plus, all that liquidity has helped thrust equity markets to lofty heights.

Bond fund investors of all sizes were convinced in May and June that the selloff was the start of something big. Fed Chairman Ben Bernanke's taper talk drove everyone to the exits. The plot had changed—rates were rising.

False. Bernanke retrenched as the regional Fed presidents mollified bond wonks with a rewrite. The Fed's head-fake has created a bond-buying opportunity.

USG Corp. has a blemished past. The company was in and out of Chapter 11 twice. But there is a new USG. Its management has cut expenses, developed new products and restored the company to profitability.

USG has three core businesses: housing, commercial real estate, and repair and remodeling. Products include gypsum wallboard, ceilings, ceiling tiles and ceiling-suspension systems. The average age of homes and commercial buildings in the U.S. is nearly 40 years. That's good news for USG. Sales and margins in the latest quarter rose across the three core business. Gypsum sales jumped 21% from a year ago, as



wallboard prices increased 16%. Ceiling sales increased 6%. Meanwhile, USG's liquid assets are strong at \$846 million.

For investors worried about higher rates, buy the short-dated **USG CORP.**

**6.30% NONCALLABLE BONDS DUE NOV. 15, 2016 (CUSIP: 903293AR9) AT 103.75 FOR A 5% YIELD TO MATURITY.** These B- rated bonds may be "junk," but the corporate turnaround is well under way. Expect rating upgrades.

Investors would have to be living in a cave not to notice the energy sector's transformation. If you look at all the

million, down slightly, but earnings before interest, taxes, depreciation, amortization and aircraft rental costs were up 23%. Contracts average four to five years, and new contracts are up. Liquidity is good: \$360 million between cash and their revolving line of credit. If you want yield, buy **CHC HELICOPTER SENIOR SECURED FIRST LIEN NOTES 9.25% DUE OCT. 15, 2020 (CUSIP: 12545DAB4) RATED B+.** If you pay 104.50, you get 8.17% to the 2018 call or 8.40% to maturity.

Now rewind back to the giddy days when fat cat founder Gary Winnick's Global Crossing telecom company was a high-tech darling. Most investors lost money but not Winnick. Global Crossing filed for bankruptcy in 2002.

Fast-forward to 2011: Level 3 Communications acquired Global Crossing. Level 3 Communications is a broad-based provider of Internet protocol, video, data and voice services for many of the Internet carriers in North and Latin America and Europe.

Level 3's balance sheet is a work in

## THE FED'S HEAD-FAKE HAS CREATED BOND BUYING OPPORTUNITIES

industries that feed into North America's growing energy industry, there are some gems for the plucking. One such gem is CHC Helicopter. This privately held Canadian company is a workhorse for the oil and gas industry. Headquartered in Vancouver, B.C., CHC operates more than 250 aircraft in 30 countries, transporting provisions and people and mounting rescue operations to offshore oil and gas platforms.

Fourth-quarter revenue was \$439

progress. The latest financial statement shows approximately \$600 million cash. Adjusted earnings rose 12% to \$387 million, excluding severance charges. The company should be profitable in 2014 as revenues increase and margins expand.

For aggressive investors buy **LEVEL 3 FINANCE, INC. SENIOR NOTES 9.375% DUE APR. 1, 2019 (CUSIP: 527298AR4) CALLABLE APR. 1, 2015** and thereafter. Buy at 111.50 for a yield of 4.88% to a call in 2015 at 104.68. 

MARILYN COHEN IS PRESIDENT OF ENVISION CAPITAL MANAGEMENT, INC., A LOS ANGELES FIXED-INCOME MONEY MANAGER. VISIT HER HOME PAGE AT [WWW.FORBES.COM/COHEN](http://WWW.FORBES.COM/COHEN).

THOMAS KUHLBECK FOR FORBES

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# Bond Smart Investing

## Geeze Louise

Most moviegoers remember the quixotic team of Thelma and Louise. I remember Thelma saying, "Geeze, Louise. That wasn't very nice." Well, individual investors are saying the same about bond funds—that wasn't very nice the way their principle declined. So rather than drive off a cliff like the big screen duo, they sold their bond funds. Yes, they sold and sold and sold bond funds in May, June, July and August. And it's been nasty.

Trim Tabs, the uber keeper of these statistics reports the following outflow from bond funds:

- June: \$69 billion
- July: \$14.8 billion
- August: \$30.3 billion as of this printing

Municipal bond funds have taken the brunt of redemptions. After all, between fiscal cliff scares, Obamacare and higher tax rates, munis were supposed to be a safe haven. This is no longer the case when bond funds comprise your muni holdings.

Between the \$1.2 trillion that stampeded into bond funds post credit crisis and the negative headlines from Stockton, San Bernardino, Detroit, Chicago, Illinois and Puerto Rico, muni investors are already freaked out.

My most recent book, *Surviving the Bond Bear Market*, specifically addresses the looming mass exodus out of bond funds, what investors must do to preserve their nest eggs and what will happen if they don't. It appears what is now befalling bond fund investors is much worse than even I anticipated.

Individual investors need to suck it up and take their lumps, then act decisively. Re-think your bond strategy. Replace your bond

fund holdings with individual bond issues. Make your purchases strategic and short in duration. A duration of 3 years. Buy bonds from issuers with the unquestionable ability to make interest and principle payments.

The arrogant bond fund managers say bonds are too

complicated and the analysis, too rigorous for individual investors to comprehend. I say nonsense. There is so much bond information written for lay-people free for the asking. Just take the subject as seriously as you take the rest of your investment portfolio. Here are some of the best sources for bond information:

- [www.investinginbonds.com](http://www.investinginbonds.com)
- [www.emma.msrb.org](http://www.emma.msrb.org)
- Forbes magazine and [www.Forbes.com](http://www.Forbes.com)
- [www.bloomberg.com](http://www.bloomberg.com)
- [www.seekingalpha.com](http://www.seekingalpha.com)

Each of these bond information sources offer

unbiased information as well as tutorials that will remove any fear you might have of bond execution.

Sure interest rates are on the rise—most have expected it for a while now. Even so, it's better to own bonds with final maturities of 3-7 years than to be part of the fast action, point and click brigade who is exiting bond funds in a flurry at steeply discounted prices. ■



Don't trust your  
municipal bond  
ratings





Marilyn Cohen is one of the financial community's most respected fixed income securities experts. She has been a Forbes magazine columnist for 18 years and is author of *Surviving the Bond Bear Market: Bondland's Nuclear Winter* published by John Wiley & Sons, Inc. Marilyn is a sought after expert appearing on *Nightly Business Report*, *CNBC*, *Fox Business News*, *National Public Radio* and other business shows as well a frequent authoritative source for the *Wall Street Journal*, *New York Times* and *Baron's*. She is the CEO of *Envision Capital Management, Inc.* a money management firm specializing in separately managed fixed income portfolios for individuals. Minimum account size is \$500,000.



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Publisher: Marilyn Cohen  
Executive Editor: Chris Malburg

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# Bond Recommendations

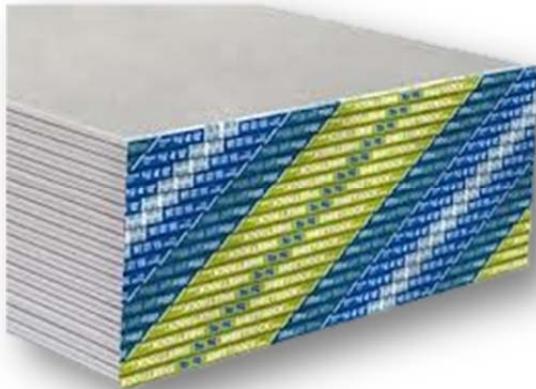
International Game Technology USG Corp  
5.50% due June 15, 2020  
CUSIP: 459902AS1  
Baa2/BBB



Time Warner Cable  
5.00% due Feb 1, 2020  
CUSIP: 88732JAW8  
Baa2/BBB



Advanced Micro Devices  
8.125% due Dec 15, 2017  
CUSIP: 007903AR8  
B2/B/CCC



USG Corp  
6.30% due Nov 15, 2016  
CUSIP: 903293AR9  
Caa2/B-/B

USG Corp  
7.75% due Jan 15, 2018  
CUSIP: 903293AS7  
Caa2/B-/B

Dana Holdings Corp  
6.50% due Feb 15, 2019  
CUSIP: 235825AA4  
B2/BB



MGM Resorts  
6.75% due Oct 1, 2020  
CUSIP: 552953BY6  
B3/B+/B



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