LET THE BOND AUTOPSY BEGIN

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22 years a *Forbes* columnist

- AAII Puget Sound
  January 21, 2017

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FROM THE PIT OF THE CREDIT CRISIS TO THE EUPHORIA OF THE TRUMP BUMP, BIG CHANGES ARE AHEAD FOR BOND INVESTORS

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WALL STREET JOURNAL, DECEMBER 12, 2016:

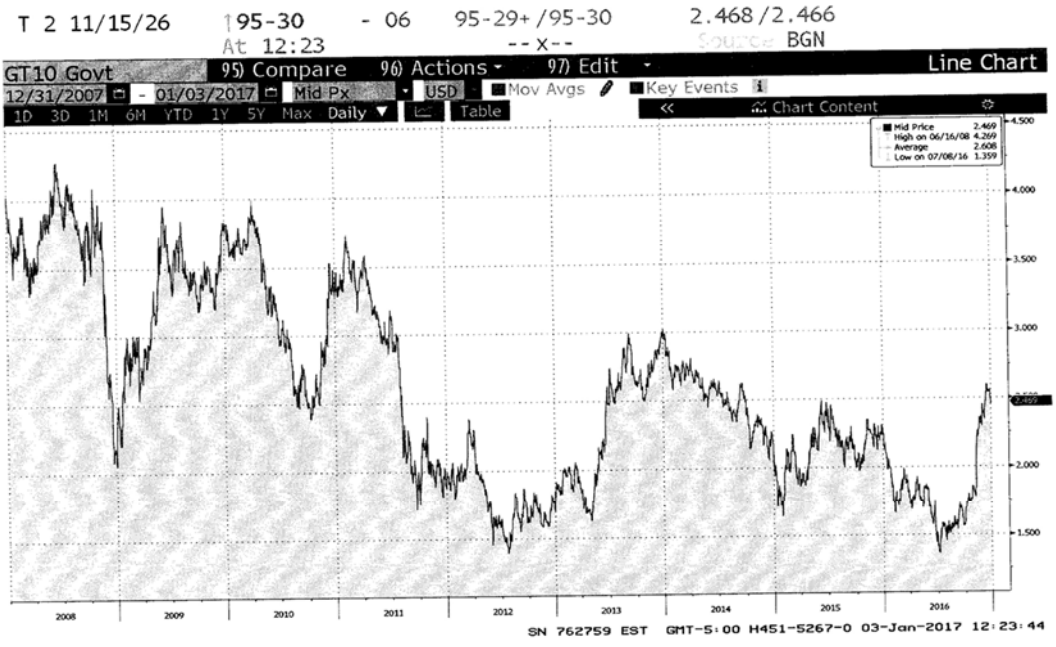
"Like the Reagan and Thatcher revolutions, Trump and Brexit are reactions to stagnation."

←*Stagnation*
Growth→

4

T 2 11/15/26 ↓95-29 - 07 95-28+/95-29 2.472/2.470
At 12:17 --x-- BGN
GT10 Govt 95) Compare 96) Actions 97) Edit Line Chart
01/02/2015 - 12/31/2016 Mid Px USD Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Daily Table Chart Content
Mid Price 2.445
High on 12/15/16 2.598
Average 1.982
Low on 07/08/16 1.359
2.600
2.400
2.200
2.000
1.800
1.600
1.400
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2015 2016
SN 762759 EST GMT-5:00 H451-5267-0 03-Jan-2017 12:17:49

5


T 2 11/15/26 ↑95-30 - 06 95-29+/95-30 2.468/2.466
At 12:23 --x-- BGN
GT10 Govt 95) Compare 96) Actions 97) Edit Line Chart
12/31/2007 - 01/03/2017 Mid Px USD Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Daily Table Chart Content
Mid Price 2.469
High on 06/16/08 4.269
Average 2.608
Low on 07/08/16 1.359
4.500
4.000
3.500
3.000
2.000
1.500
2008 2009 2010 2011 2012 2013 2014 2015 2016
SN 762759 EST GMT-5:00 H451-5267-0 03-Jan-2017 12:23:44

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The bet being called by so many wonks (who have been wrong the past 8 years) that rates are headed MUCH higher presumes the new people in office do not understand the meaning of debt and debt service. These new people in power ran successful businesses and were responsible for the bottom line. Of course they understand debt.

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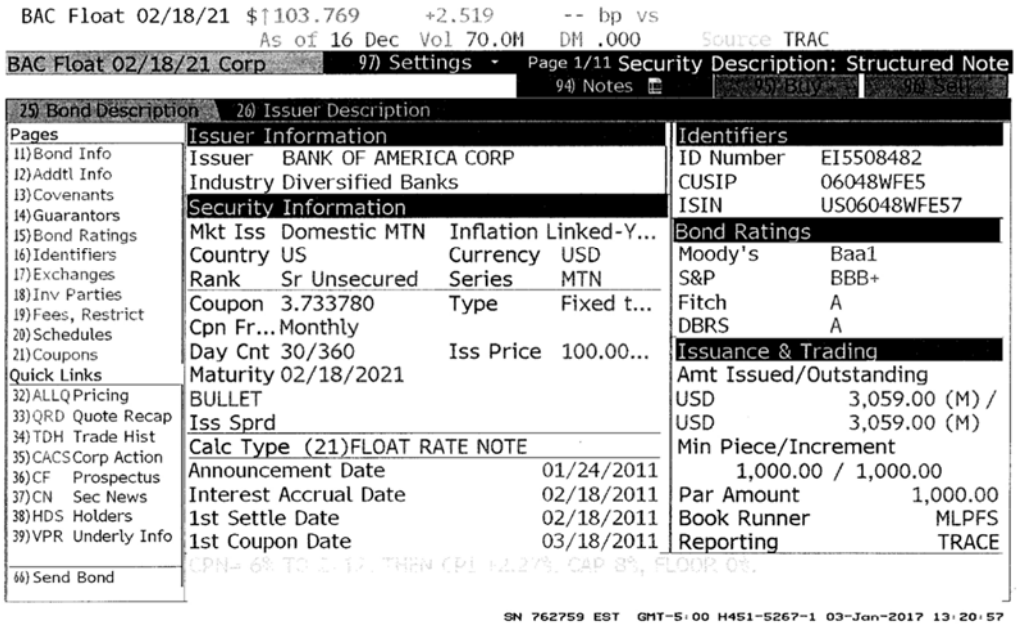
CONSTRUCTIVELY SPEAKING:

- If interest rates reach a higher trading range you'll lose less with individual bonds than if you held bond funds.
- Add some bonds with moving parts to your portfolio. This has not worked out well in the past several years but may well be a home run in the future.
- CPI bonds
- 3-month LIBOR floaters
- Bonds that float to the 10 Year or 30 Year Us Treasury

8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As of 16 Dec Vol 70.0M DM .000 Source TRAC
BAC Float 02/18/21 Corp
97) Settings
Page 1/11 Security Description: Structured Note
94) Notes
25) Bond Description
26) Issuer Description
Pages
11) Bond Info
12) Addtl Info
13) Covenants
14) Guarantors
15) Bond Ratings
16) Identifiers
17) Exchanges
18) Inv Parties
19) Fees, Restrict
20) Schedules
21) Coupons
Quick Links
32) ALLQ Pricing
33) QRD Quote Recap
34) TDH Trade Hist
35) CACS Corp Action
36) CF Prospectus
37) CN Sec News
38) HDS Holders
39) VPR Underly Info
66) Send Bond
Issuer Information
Issuer BANK OF AMERICA CORP
Industry Diversified Banks
Security Information
Mkt Iss Domestic MTN
Inflation Linked-Y...
Country US
Currency USD
Rank Sr Unsecured
Series MTN
Coupon 3.733780
Type Fixed t...
Cpn Fr... Monthly
Day Cnt 30/360
Iss Price 100.00...
Maturity 02/18/2021
BULLET
Iss Sprd
Calc Type (21) FLOAT RATE NOTE
Announcement Date 01/24/2011
Interest Accrual Date 02/18/2011
1st Settle Date 02/18/2011
1st Coupon Date 03/18/2011
Identifiers
ID Number EI5508482
CUSIP 06048WFE5
ISIN US06048WFE57
Bond Ratings
Moody's Baa1
S&P BBB+
Fitch A
DBRS A
Issuance & Trading
Amt Issued/Outstanding
USD 3,059.00 (M) /
USD 3,059.00 (M)
Min Piece/Increment
1,000.00 / 1,000.00
Par Amount 1,000.00
Book Runner MLPFS
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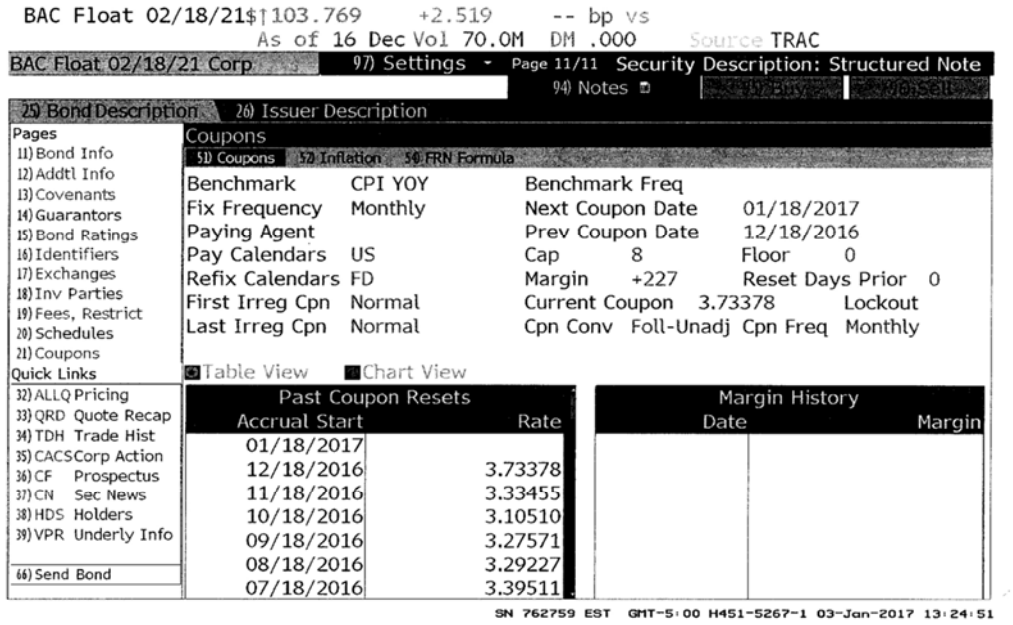
9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39) VPR Underly Info
66) Send Bond
Coupons
51) Coupons
52) Inflation
50) FRN Formula
Benchmark CPI YOY
Benchmark Freq
Fix Frequency Monthly
Next Coupon Date 01/18/2017
Paying Agent
Prev Coupon Date 12/18/2016
Pay Calendars US
Cap 8
Floor 0
Refix Calendars FD
Margin +227
Reset Days Prior 0
First Irreg Cpn Normal
Current Coupon 3.73378
Lockout
Last Irreg Cpn Normal
Cpn Conv Foll-Unadj
Cpn Freq Monthly
Table View
Chart View
Past Coupon Resets
Accrual Start
Rate
01/18/2017
12/18/2016 3.73378
11/18/2016 3.33455
10/18/2016 3.10510
09/18/2016 3.27571
08/18/2016 3.29227
07/18/2016 3.39511
Margin History
Date
Margin
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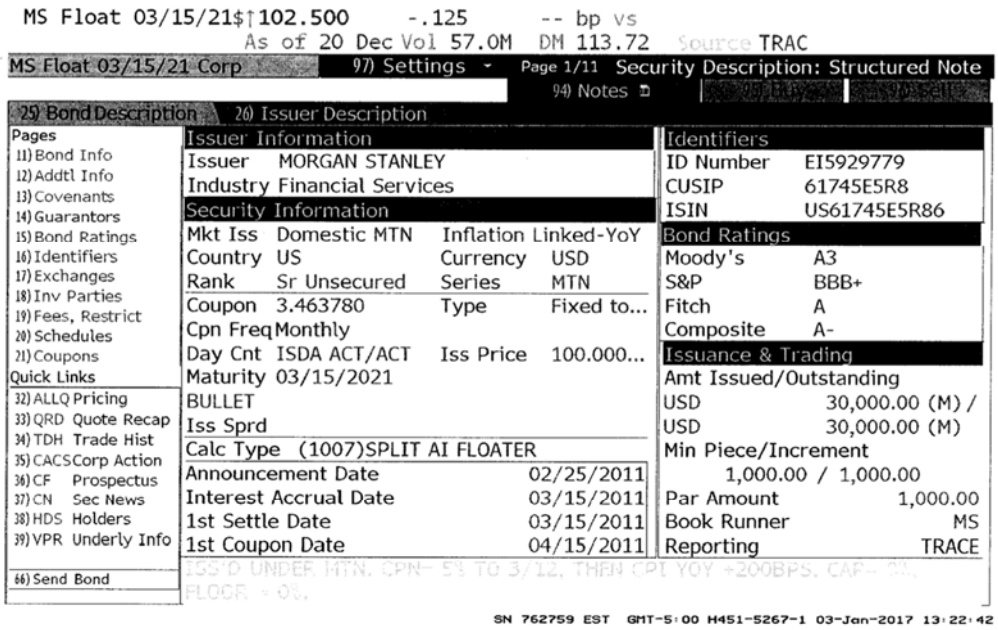
10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As of 20 Dec Vol 57.0M DM 113.72 Source TRAC
MS Float 03/15/21 Corp 97) Settings Page 1/11 Security Description: Structured Note
94) Notes
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34) TDH Trade Hist
35) CACS Corp Action
36) CF Prospectus
37) CN Sec News
38) HDS Holders
39) VPR Underly Info
66) Send Bond
Issuer Information
Issuer MORGAN STANLEY
Industry Financial Services
Security Information
Mkt Iss Domestic MTN Inflation Linked-YoY
Country US Currency USD
Rank Sr Unsecured Series MTN
Coupon 3.463780 Type Fixed to...
Cpn Freq Monthly
Day Cnt ISDA ACT/ACT Iss Price 100.000...
Maturity 03/15/2021
BULLET
Iss Sprd
Calc Type (1007)SPLIT AI FLOATER
Announcement Date 02/25/2011
Interest Accrual Date 03/15/2011
1st Settle Date 03/15/2011
1st Coupon Date 04/15/2011
ISS'D UNDER MTN. CPN= 5% TO 3/12, THEN CPI YOY +200BPS. CAP= 8%, FLOOR = 0%.
Identifiers
ID Number EI5929779
CUSIP 61745E5R8
ISIN US61745E5R86
Bond Ratings
Moody's A3
S&P BBB+
Fitch A
Composite A-
Issuance & Trading
Amt Issued/Outstanding
USD 30,000.00 (M) /
USD 30,000.00 (M)
Min Piece/Increment
1,000.00 / 1,000.00
Par Amount 1,000.00
Book Runner MS
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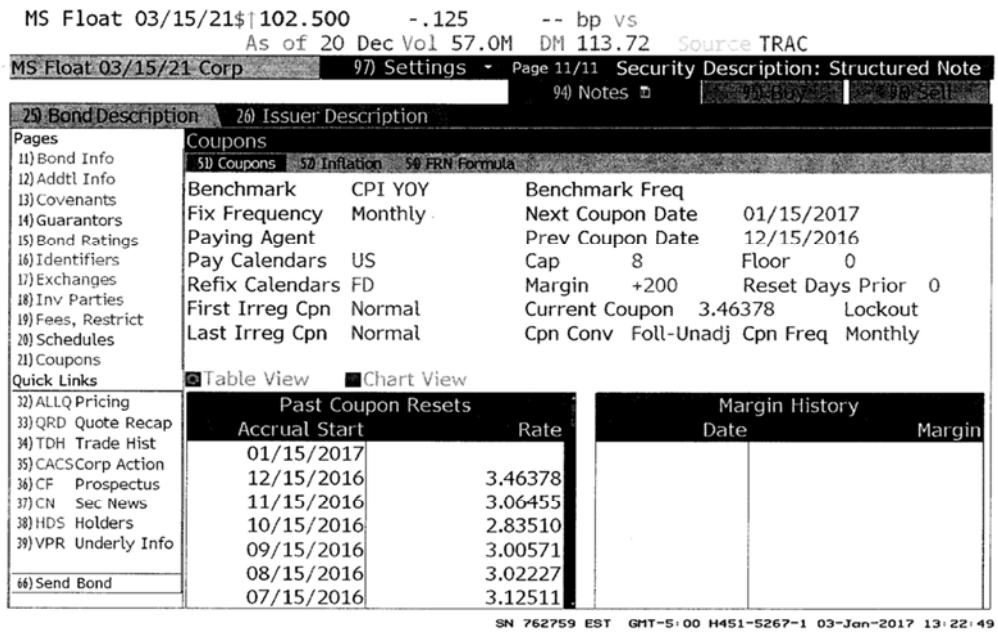
11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As of 20 Dec Vol 57.0M DM 113.72 Source TRAC
MS Float 03/15/21 Corp 97) Settings Page 11/11 Security Description: Structured Note
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Coupons
51) Coupons 52) Inflation 59) FRN Formula
Benchmark CPI YOY Benchmark Freq
Fix Frequency Monthly Next Coupon Date 01/15/2017
Paying Agent Prev Coupon Date 12/15/2016
Pay Calendars US Cap 8 Floor 0
Refix Calendars FD Margin +200 Reset Days Prior 0
First Irreg Cpn Normal Current Coupon 3.46378 Lockout
Last Irreg Cpn Normal Cpn Conv Foll-Unadj Cpn Freq Monthly
Table View Chart View
Past Coupon Resets
Accrual Start Rate
01/15/2017
12/15/2016 3.46378
11/15/2016 3.06455
10/15/2016 2.83510
09/15/2016 3.00571
08/15/2016 3.02227
07/15/2016 3.12511
Margin History
Date Margin
SN 762759 EST GMT-5:00 H451-5267-1 03-Jan-2017 13:22:49

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20M	BAC	10/09/24	06048WPU8	@	$94.50	CPI + 105 BPS
100M	BAC	11/19/24	06048WPY0	@	$96.125	CPI + 110 BPS
50M	NAVI	5/03/19	78442FCH9	@	$96.75	CPI + 225 BPS
65M	RBS	1/13/20	78009KAB8	@	$97.00	1.5 * CPI
65M	MS	8/24/23	61745E6E6	@	$99.625	CPI + 155 BPS

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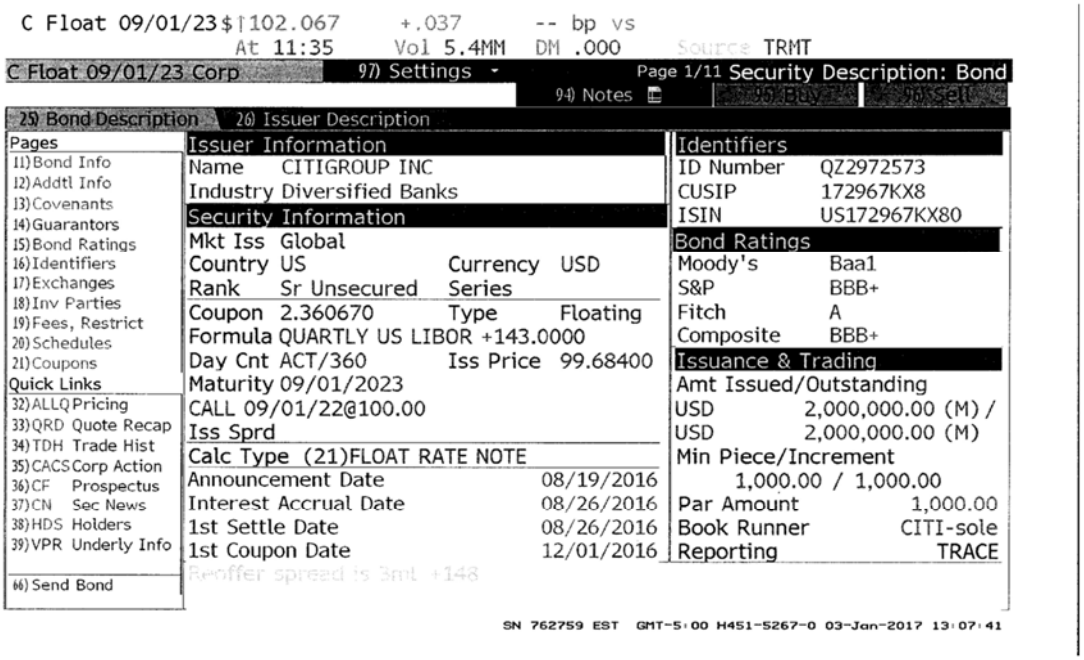

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Questions You Should Be Asking

- Should we own a Floating Rate fund? Yes
- Should we own a TIPS fund? Maybe
- Should we own a leveraged Floating Rate fund? No
- Should our bond duration for 2017 be short? Yes
- When do we lengthen duration?

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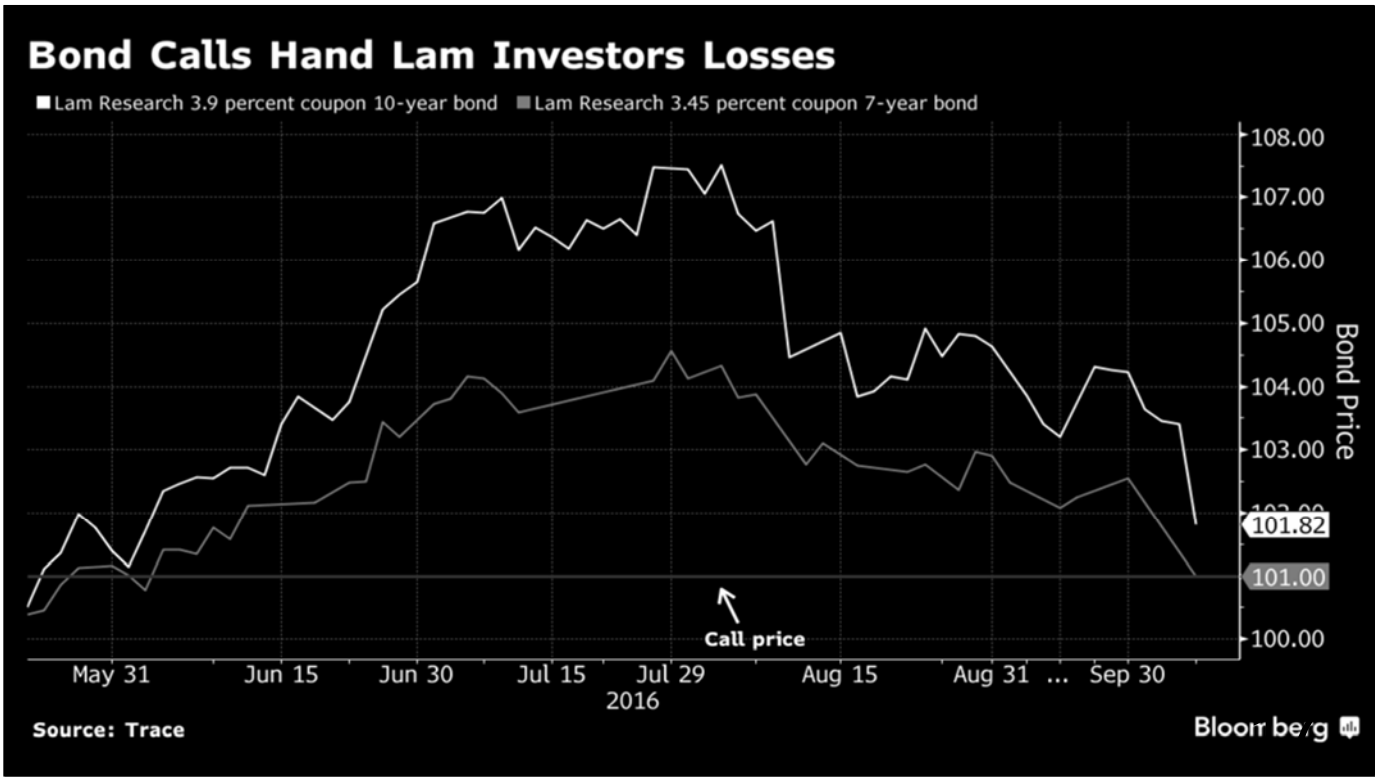
Sink Holes

Are there any bond sink holes of which we should be wary?

Special Mandatory Redemption Provisions: The details matter…read the fine print in the Prospectus.

16



Corporate Bond Investment Ideas

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GOOD BOND IDEAS ARE HARD TO FIND

United Continental Holdings
6% due December 1, 2020
$300 million outstanding
B1, BB-, BB
CUSIP: 910047AG4
Yield to Maturity

Need a Place Holder?
American Airlines Group
6.125% due June 1, 2018
$500 million outstanding
B1, BB-, BB-
CUSIP: 91731VAA4
Yield to Maturity

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ALWAYS USE INVESTINGINBONDS.COM AND EMMA.MSRB.ORG

UAL 6 12/01/20 $ 107.470 +.345 Yld 3.911
At 11:08 Vol 250.0M Source TRMT

UAL 6 12/01/20 Corp | 1) Actions | 97) Settings | Page 1 Trade/Quote Recap
Range 12/29/16 08:00:00 - 01/05/17 17:30:00 | 95) Buy | 96) Sell
2) Trade Recap | 3) Quote Recap
Source TRAC | Show Ticks All | Cond Code Definitions

Date	Time	Size(M)	Price	Yield	RPS	RP	CP	Sprd	Benchmark	CC	Trd Da	Trd Time	Act	Ind	Re	ATS
		>min siz			All											
01/05	15:22:1	5	109.500	3.373	S	D	C	195.1	T 1 3/8 12/15/1		01/05	15:22:11			m	
01/05	15:00:5	5	106.690	4.120	S	D	D	269.8	T 1 3/8 12/15/1		01/05	15:00:54				
01/05	15:00:5	5	106.690	4.120	B	D	C	269.8	T 1 3/8 12/15/1		01/05	15:00:54			m	
01/05	14:55:1	119	106.625	4.138	B	D	C	271.5	T 1 3/8 12/15/1		01/05	14:55:12			n	
01/05	14:55:1	119	106.625	4.138	S	D	D	271.5	T 1 3/8 12/15/1		01/05	14:55:12				
01/05	14:29:2	4	106.164	4.263	B	D	C	284.0	T 1 3/8 12/15/1		01/05	14:29:26			m	
01/05	14:29:2	4	106.664	4.127	S	D	D	270.5	T 1 3/8 12/15/1		01/05	14:29:26				Y
01/05	13:03:1	15	108.500	3.637	S	D	C	222.2	T 1 3/8 12/15/1		01/05	13:03:18			m	
01/05	11:55:1	3	107.609	3.874	S	D	D	245.9	T 1 3/8 12/15/1		01/05	11:53:12				Y
01/05	11:53:1	3	107.609	3.874	S	D	C	245.9	T 1 3/8 12/15/1		01/05	11:53:12			n	
01/05	11:08:4	250	107.470	3.911	S	D	C	248.8	T 1 3/8 12/15/1		01/05	11:08:38			m	
01/05	10:21:3	10	109.300	3.426	S	D	C	197.6	T 1 3/8 12/15/1		01/05	10:21:37			m	
01/04	17:20:3		106.425	4.193						OC	01/04	17:20:39				
01/04	16:02:1	4	106.425	4.193	B	D	C	271.1	T 1 3/8 12/15/1		01/04	16:02:09			m	
01/04	15:21:3	129	107.130	4.003	S	D	C	251.8	T 1 3/8 12/15/1		01/04	15:21:05			m	
01/04	15:12:0	3	107.609	3.875	S	D	D	238.4	T 1 3/8 12/15/1		01/04	15:10:04				Y
01/04	15:10:0	3	107.609	3.875	S	D	C	238.4	T 1 3/8 12/15/1		01/04	15:10:04			n	
01/04	15:08:4	129	106.833	4.083	S	D	D	259.2	T 1 3/8 12/15/1		01/04	15:08:45				
01/04	15:08:4	129	106.773	4.099	B	D	C	260.9	T 1 3/8 12/15/1		01/04	15:08:45			m	

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Corporate Bond Recommendations

EPR Properties: Real Estate Investment Trust that acquires & develops properties leased to entertainment related businesses, megaplex theaters, and entertainment centers

5.25% due July 15, 2023
$275 million outstanding
Baa2, BBB-, BBB-
CUSIP: 26884UAA7
Yield to Maturity

Lear Corp.: Manufactures auto parts, seating, control electronics, connectors, terminals, etc.

4.75% due January 15, 2023
$499 million outstanding
B1, BB-, BB-
CUSIP: 521865AU9
Yield to Worst Call
Yield to Maturity **or…**

5.25% due January 15, 2025
$650 million outstanding
CUSIP: 521865AX3
Yield to Worst Call
Yield to Maturity or

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More Corporate Bond Recommendations

AutoNation, Inc.
Finances & services new & used vehicles
3.325% due January 15, 2021
$300 million outstanding
Baa3, BBB-
CUSIP: 05329WAL6
Yield to Worst Call
Yield to Maturity

…or AutoNation, Inc.
4.50% due October 1, 2025
$450 million outstanding
Baa3, BBB-
CUSIP: 05329WAM4
Yield to Worst Call
Yield to Maturity

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A DEATH-DEFYING INVESTMENT WE SURVIVED

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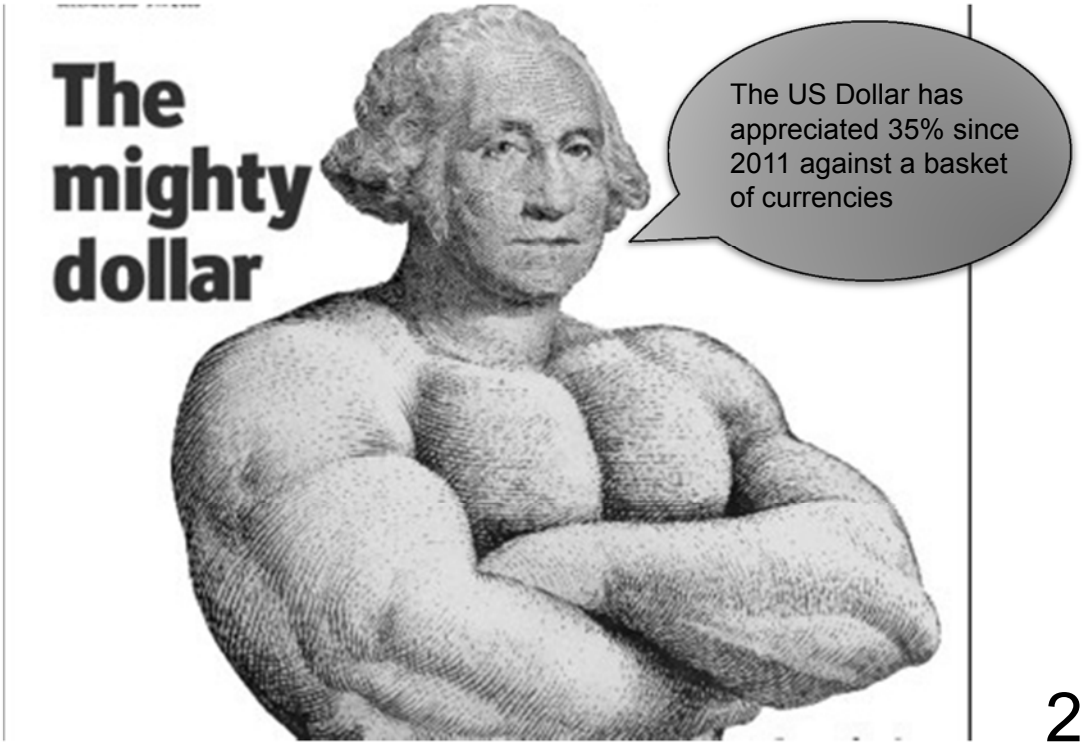

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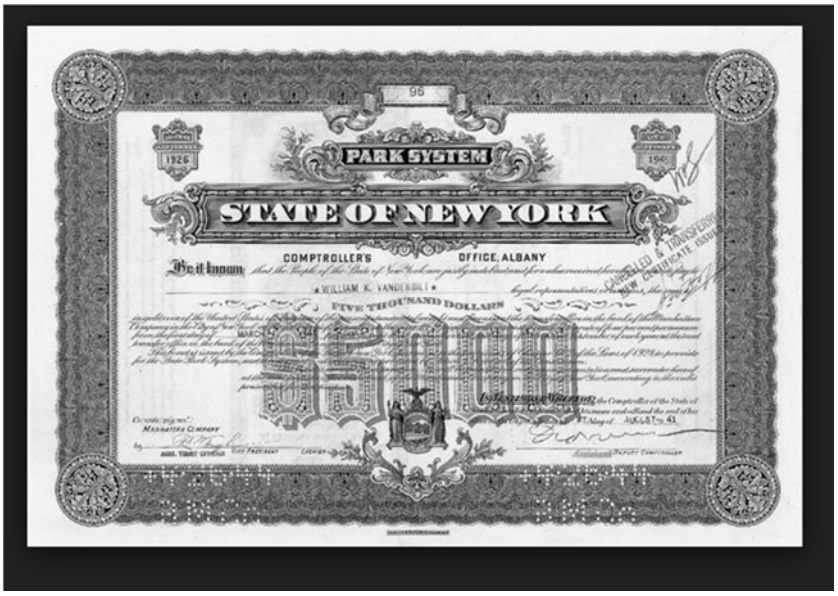
WELCOME TO THE MUNICIPAL BOND ZONE



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DIG DOWN AND RE-THINK EVERYTHING YOU'VE LEARNED ABOUT MUNICIPAL BONDS

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How does the De Minimis Rule apply to municipal bonds?

The rule does not apply to tax-free municipal bonds purchased at original issue. In this situation there is no-taxable interest income for the buyer, so there is no need to apply the rule.

The De Minimis rule applies to municipal bonds that are bought in the secondary market. If a municipal bond is bought below its tax basis, then there is a market discount. If the market discount is large, the owner of the bond is required to pay ordinary income taxes on the market discount. The bondholder can pay the income tax on an annual basis as it accrues, or when the bond is sold or matures.

If the market discount is less than .25% however, the bondholder will able to pay the capital gains rate on that income instead.

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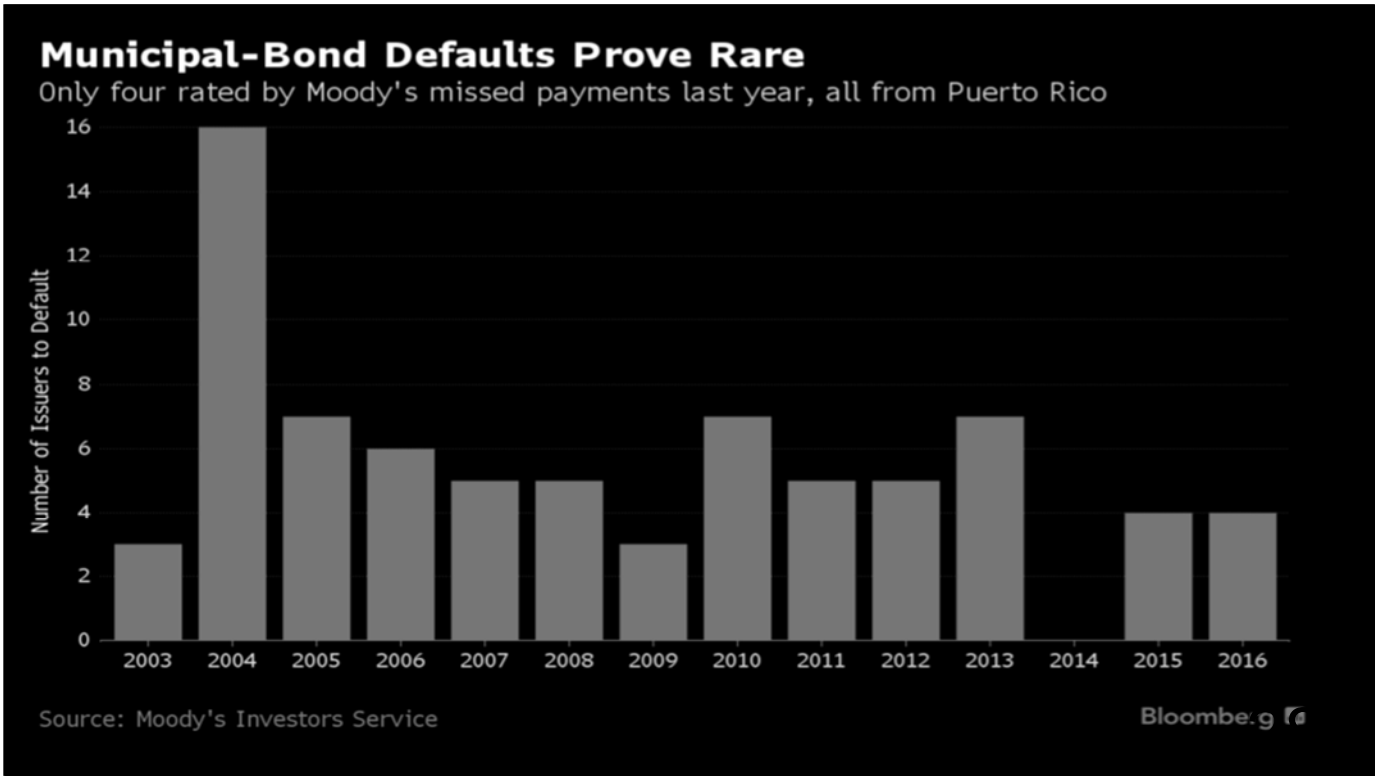

AIDING AND ABETTING MUNICIPAL DYSFUNCTION CAUSES TAX PAYERS TO OWE MORE.

- **ILLINOIS**
- **CHICAGO**
- **COUNTIES**
- **SMALL AND LARGE CITIES**

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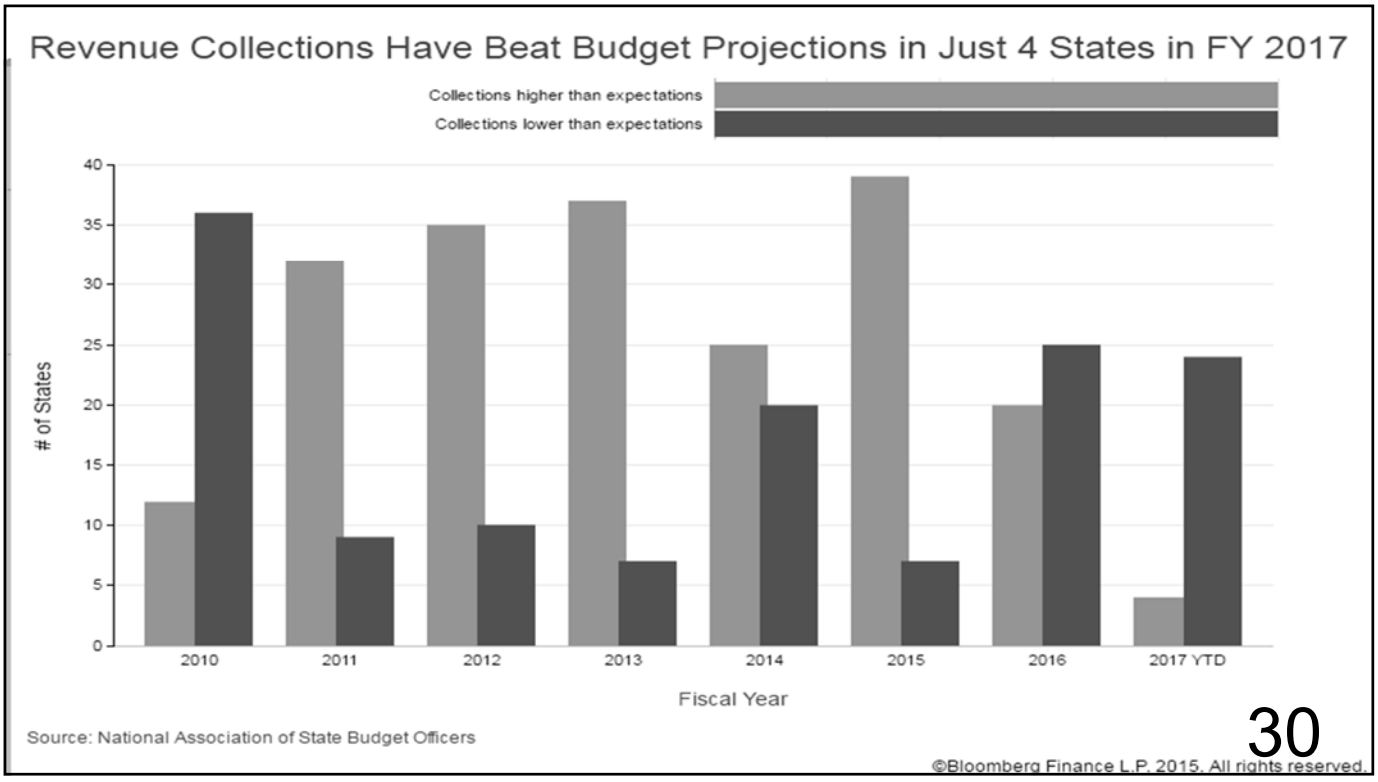

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TAX EXEMPTION FOR MUNICIPAL BONDS

- Republican Governors: 33
- Republican State Legislators: 32
- Powerful lobbies:
  - Conference of Mayors
  - Association of State Treasurers
  - Financial Officials
  - Wall Street

According to the Treasury Department:

From 2017-2026 municipal tax exemption will cost the Treasury $420 billion. That's much less than the mortgage interest deduction and deductions from employee health insurance.

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SOME MUNI NO NO'S /SOME MUNI YES ANSWERS

No No's

- No Detroit or Anything in Michigan
- No Chicago Bonds
- No Illinois Bonds
- No Puerto Rico bonds
- No GOs from PROBLEM AREAS
- No PENSION OBLIGATION bonds (taxable)
- No SALES TAX REVENUE bonds
- No bonds NEEDING ANNUAL APPROPRIATIONS
- No stadium, Parking, Coliseum, Museum, Prison, Court House, Police HQ bonds

Yes

- Yes on Senior Lien Airport Revenue bonds
- Yes on Water & Sewers in GOOD AREAS
- Yes on ESSENTIAL REVENUE bonds
- Yes on PERSONAL INCOME TAX bonds (PIT)

32

Information you want to see in an Official Statement

- Large and Diverse Tax Base
- Limited ability to issue more debt
- Sources and Uses of Funds
- No interest rate swaps
- Debt service coverage: Minimum 1.5 times coverage

THE ABILITY TO TAX THE POPULUS HAS NOTHING TO DO WITH THEIR CAPACITY TO PAY—THINK DETROIT

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Come Fly With Me Airport Revenue Bonds

- Business Travel Spending
- Airport Debt Loads
- Debt Service Coverage
- Days of Cash on Hand
- (average 560 days)

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DISSECT THE AIRPORT REVENUE CONCEPT

- Revenues through concessions
- When you rent a car
- Car rental facilities
- Duty-free shops
- Taxi drop off and pickup ($4.00)
- Rent for the space airlines use
- Landing fees assessed per flight
- Uber and Lyft for the use of roadway and curb space
- Luggage trolleys
- Passenger facility charge (LAX $4.50/person)

Major airports are in great financial shape

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AIRPORTS ARE MAKING MONEY GALORE

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Municipal Recommendations

Buy Airport Revenue Bonds:

- From Major Hubs (no regionals)
- Buy Senior Liens
- No Sinking Funds

1. Atlanta International
2. Los Angeles International
3. O'Hare
4. Dallas Fort Worth
5. JFK
6. Denver International
7. San Francisco International
8. Charlotte Douglas International
9. McCarran International
10. Phoenix Sky Harbor
11. Miami International

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Shopping for the Best Price Really Matters

Size	Issuer	CPN	Maturity	Crews	Wells	Citi	Vining	Alamo
150	Oceanside CA Unified Sch Dist	0	8/1/2021	88.6	89.131	88.4	Pass	
150	Univ of CA, CA Revenues	1	5/15/2021	95.75	97.125	Pass	Pass	
25	Garden Grove CA AGY Cmnty Devs	5	10/1/2028	112.26	115		Pass	112.079
25	San Mateo Ca Union High Schilling Di	4	9/1/2028	105.26	109.686	105.227	Pass	107.266
50	Garden Grove CA AGY CMTY Devs	5	10/1/2026	115.255	109.44		Pass	115

emma.msrb.org

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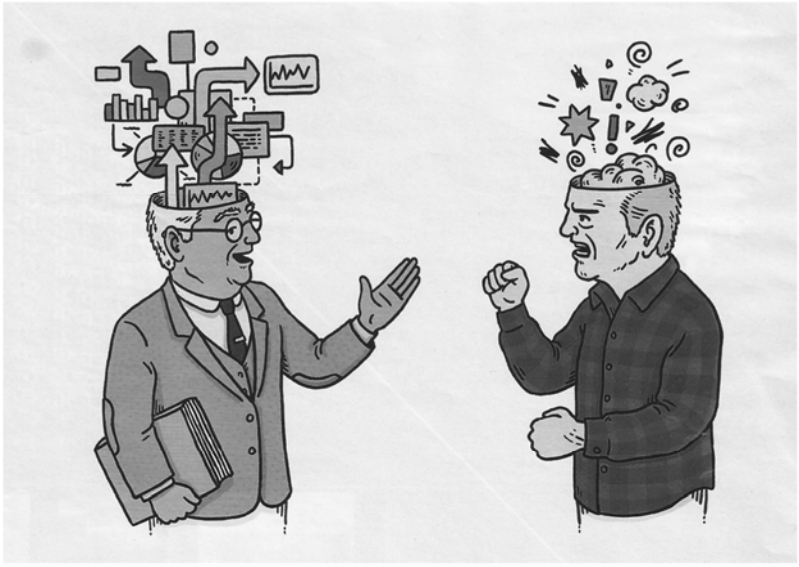

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Envision Capital Management, Inc.

Fixed Income Money Managers

MINIMUM ACCOUNT SIZE $500,000

FEES:

- **MUNICIPALS:** **.43%**
- **INVESTMENT GRADE CORPORATES:** **.60%**
- **SPLIT-RATED CORPORATES:** **.75%**
- **HIGH YIELD:** **1.00%**

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