The Income ADVISOR the *strategic* ADVANTAGE PROCESS®
A monthly investment bulletin prepared by Robin Kingsmill and The Kingsmill Team

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The subject still is bonds - in funds or individually held

Why does it appear to be complicated?

There are several reasons investors look to a fixed income vehicle right now. Bonds offer the YIELD & GUARANTEE that you will be repaid a specific amount at a specific time. Those factors are very attractive. The question here is, with whom is that guarantee contracted?

We continue to marvel at those that find bond funds as attractive as those selected individually. Once upon a time, this vehicle worked the way it set out to for the investor. But today the premiums that must be paid for a bond have changed too many dynamics. It is not that we challenge the decisions such investors make: we challenge much of the information that is given to investors upon which they must *make such* decisions.

Imagine, if you will, you were considering the purchase of a baggie filled with varying colours of tabs. Some tabs are vibrant and brightly coloured, because you always need some stars! If they were bonds, they would be those purchased for their high yields and great returns.

Some dull grey and some just plain beige. The grey? Those would be like long bonds, chosen in the hope they will be stolid.

The beige? Those would be filler: the issues planned to safely sit in the middle of the market, rather unaffected.

But that's not the Bond Market today, is it?

With the prices and yields of those fillers *today,* those low yielding issues whose job was to just cover the Management Fee, too often are not even doing that! Too many are now in negative territory. Today's bond prices are higher, making those low returns very costly to the fund. And worse: some have moved to *add* to your tax burden and to cost you! May we remind you: those are the fillers: that which is supposed to provide that safety factor through diversification!!

The descriptions in the Holding Reports are the profile and yields *only at the time of the issue release* ...certainly not today! Clearly, we have seen that bond prices and premiums will change. With current premiums and yields as low as they are, those beige and grey tabs are highly liquid. And that is great because their liquidity is key to institutional support of such funds: institutions need to be able to use that fund to move large blocks of money. But that's a benefit that does not help you, the investor. The few vibrant ones then, must carry the load of the costs of the fund, for it is their performance that must make up for filler dullards and losses instead of being free to increase your wealth. That's good for the institution. But here's the question: do they do enough for you?

We cherry pick the best bonds at current yields and build a portfolio for our clients. We are nimble and can often buy issues that larger pools cannot. The benefit to you is better interest rates.

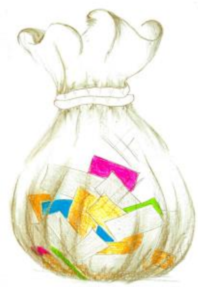
We also have concerns with several other aspects of that baggie or fund of bonds:

All Managed Funds are marketed on past performance and not guaranteed.

Individual bonds and preferred shares have contracted go-forward rates. That contract is with you the investor, and it is your choice as to what interest rate is acceptable. In a fund, that contract is with the fund, not those who purchase the fund. The result is that those returns are likely to be put to work paying for the fund, not given to the investor.

The Management Fee With rates so low and 'filler' bonds [again, grey & beige] in the portfolio, the net to you is extremely low. Individually held, contracted bonds guarantee their yield to maturity with no demands of on-going management fees to usurp the cash flow or premium.

Bond Premiums You know that prices of Bonds do move. But not so funny is how the information you receive on which to base your decision does not include that information or detail! Look at an example of why this is relevant:



The bond in the fund paid $50,000 interest
But the current Rate of Return is only a $25,000 equivalent.
In the top tax bracket, you pay $25,000 in tax
So *your ROR in the fund*, after tax …is $0 [ouch! …but wait for it:]

The Management Fee is ±$10,000 per annum

You are now $10,000 in the hole. How do you like Bond Funds so far?

When a bond goes over par in the fund, you still get a T-5 on the stated interest.
The bond is now yielding 2.5% not 5% but you still pay tax on 5%.
Would you still be happier within the fund?

Bond funds are managed to satisfy capital inflows and redemptions
We select bonds and make changes based on *the benefit to you personally*, tax efficiency and cash flows …*not to the benefit of the fund!* That difference underscores the philosophy of our business: it is *you* that should **Own your Future™**

Let's put it another way: Would you buy a fund of GIC's? What yield would you expect?

Ok. They used to call me The Bond Queen. I am OK with that. When bonds are the right choice for my client's portfolio, I am happy to ensure they have the right information to make those decisions. And we *are* nimble enough to cherry pick among the offerings to select for each portfolio. Without 'fillers' and other such influences to drive buy/sell decisions, we are able to focus on what is important: *your financial goals.*

Are you holding bonds in a fund? Call us. We'd love to talk about this!

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