SN Valuation
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Fundamentals

“we’re avoiding long durations, reducing credit risk away from economically vulnerable companies and sectors, managing volatility and increasing exposure to countries with higher-quality balance sheets such as the U.S., Brazil, Mexico and Australia.” Bill Gross, Pimco Website

The buzz around the investment community is whether to sell off on bonds and allocate more of our portfolios to equity. Many are calling the recent decrease in bond prices the beginning of a bond bear market. Bill Gross seems to think otherwise. The FED may be discontinuing their QE program, which called for buying up a lot of the MBS, which meant more Dollar was floating in the system, and artificially propping asset prices, but they are not shifting gears to higher rates anytime soon.

Some high yield bond funds returned double digit returns in 2012. We don’t anticipate bond fund yields to return anything south of 5%, and with the stock market showing some signs of weakening, we anticipate managers to allocate a sure part of their portfolios into a more reliable fixed income products.

The question has always been about fundamentals. If the fundamentals of a credit, whether it be a corporate debt, sovereign issues, or derivatives based on strong assets, then the secular market has little say on the intrinsic value of these instruments. However, many investors ran with the herd and many didn’t survive because they were giving too much credibility to the market, rather than the intrinsic value of the underlying assets.

So, invest in high quality, short duration, liquid fixed income, credit products and you will be able to ride out this supposed bear market in the fixed income market.