SN VALUATION

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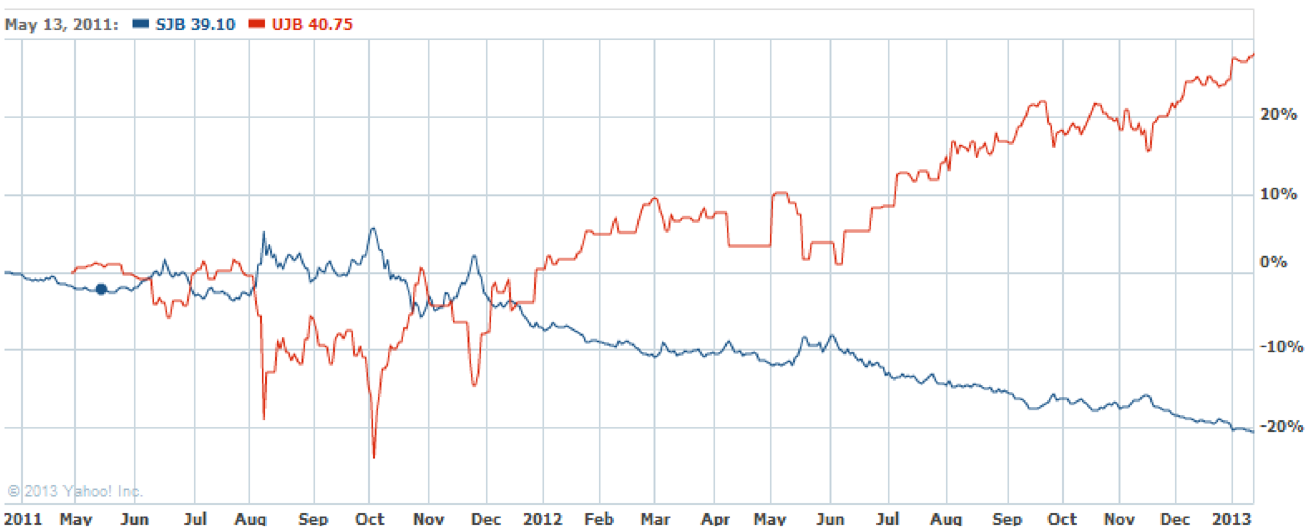
Short High Yield (SJB)/ Ultra High Yield (UJB)

There is a lot of news surrounding a bubble forming in the high yield credit space, which isn't surprising considering the 10 year Treasury is at 1.6%. If the investor could reap a 5-6% yield, then it is no surprise to see a stampede headed for the higher risk, but "justified" investment in high yield bonds. The default rate for this risky sub-class is surprisingly in the low single digits, and with rosier reports appearing (fiscal cliff concern subsiding, China's "8%" growth, Greece bonds trading at 40-50, solidifying US real estate recovery, recent Japanese government intervention), investors feel comfortable with the additional risk.



We believe in 2013-2014, the bubble will burst for high yield bonds. The premiums paid for fixed income in general is pricey, unjustified. Howard Marks, distressed investors, Bill Gross, don't understand the current yields found in fixed income space. So, many people believe that the capital will flow into equities, after investors plunder the fixed markets before the collapse. A point of reference is the recent record-breaking inflow into the equity market ($22 BB), which some speculate are institutional investors allocating capital to either 1) trick the retail investors of a recovery, playing the game before material news drops around March related to fiscal crisis legislation, 2) move out of fixed income, 3) utilizing capital from QE 3, which needs to be parked somewhere.

Proshares offers a short trade play on high yield with SJB, which is the blue line on the graph above. It works in inverse of the Ultra high yield (long).