

that income investors can still lock in rates over 8% by buying long-term bonds. Of course, those bonds will fluctuate in price (nothing is free!). If we're wrong and interest rates increase, the price will decline. If we're right and rates decline, you will want to be sure your bonds aren't called, which is why we like Treasuries (See Reverse).

and a question?

Demographers have been telling us for years that when the baby boomers hit 40-something, they were likely to slow their spending and increase savings. But by mid-1990 only those who were searching very hard could find evidence of this. Charlie Smith says the difference between a Yuppie and a Couch Potato is a mortgage. I maintain that the biggest difference between

wanting a BMW and a Ford is an attitude. It strikes me that the war has been the best excuse in a decade for a change in attitude. With the fear of war, the American public has not bought anything postponable for six months. Will they decide that having fewer bills to pay is kind of nice? Will "Born to Shop" T-shirts become passe? Let us know what you think and what you see.

WHY WE LIKE LONG TERM TREASURY BONDS INSTEAD OF CDS OR MONEY MARKET FUNDS

As we noted in our previous essay entitled "Defusing the Time Bomb" (Issue 10, October 1989), it is unlikely in the future that short-term interest rates will stay significantly above inflation rates. Therefore, to get a real return, investors must opt for long-term debt (bonds) or equity (stocks). Each of these has associated risks, some of which are well known. We want to point out some of the risks in long term bonds that are *not* well known or understood.

Volatility is obviously one risk, but so is the "risk" of the bonds being paid off or "called" early. Just as individuals borrow mortgage money to buy houses, companies borrow bond money to finance expansion. The government also borrows bond money to fund the deficit. Similarly, just as people who took out mortgages at 12% or more have since refinanced them at lower rates, companies which issued bonds at 12% or more have "called" those bonds when interest rates fell. The government has not called their bonds, because most U.S. Treasury Bonds are non-callable.

The reason we recommend long-term Treasury Bonds to investors seeking income for 3 years or more is because we want to lock in current interest rates for a long period of time. We also want the decision of when to cash in these bonds to be ours, not the issuer's. Treasury Bonds are quite liquid. They can be bought and sold on any given day. Therefore, buying a 20-year Treasury Bond does *not* lock you in for twenty years. It merely allows you to decide when to cash in. Of course, as interest rates change the price will fluctuate, but these fluctuations *win* decrease as time goes on.

A list of currently outstanding bonds appears in the Wall Street Journal every day under the heading "Treasury Bonds, Notes and Bills." Items in this listing include:

- Rate: The nominal rate or coupon. The number of dollars paid out in interest per year per \$100 of face value.
- Mo/Yr The Maturity Date of the Bond.
- Bid &Ask: Currently quoted price (fractions are in 32nds).
- Ask/Yield: The compounded yield-to-maturity based on the asking price. Note that higher coupons have higher prices so that the yields-to-maturity are similar.

As an example, on Wednesday April 17, 1991, the 8 3/4% bond maturing in 2008 was priced at 104 and 10/32 to return 8.18% compounded to maturity. These bonds can be bought and sold any day through any stockbroker. Many banks, including Mellon and Pittsburgh National, now also have this capability. They charge a fee for this service. Each quarter the U.S. Treasury also issues new bonds (borrows more money). Bonds of 3, 10 and 30 year maturities will be available at auction on May 7, 8 and 9, 1991 respectively. Check with your bank; sometimes they charge a lower fee on new issues.