

# DOUGLASBRADLEY LLC

## Personal Financial Advisors

March 2010

## DOUGLASBRADLEY'S MONEYWISE

### Financial News and Insight from an Independent Advisor

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### Personal Notes

All Work and No Play...

**From Doug Robinson** - Spring is lacrosse season for the Robinson household. I coach my oldest daughter and youngest son's rec lacrosse teams, so the next three months are pretty busy. Practices start this weekend...

As some of you may know, I'm a "shade-tree" mechanic - I enjoy working on my vehicles. I've spent the last couple of weeks replacing/rebuilding the entire suspension on our 1999 BMW 740iL. It's a beautifully engineered automobile that I

### The Great Quest for Yield

*A discussion of low interest rate yields, the danger of bonds and some ideas for safe places to park your cash.*

Over the last few months we've had a number of discussions with folks about the frustratingly low yields on savings accounts, money markets funds, certificates of deposit (CDs), and other short term fixed income investments.

There are some banks paying around 1% on savings accounts and Money Market Accounts, but by and large the average bank account yields are very close to 0%. Money market funds at brokerage firms and mutual fund companies are essentially 0% as well. After income taxes and taking into account inflation, the real return on this money is decidedly negative. Frustrated by this fact, many investors are seeking alternatives. Considering the uncertainty of the economy and stock markets, people are understandably leary of investing in stocks. As a result we've seen massive in-flows to bond mutual funds.

Consider these statistics from the Investment Company Institute for 2009:

- Investors withdrew \$536 billion from money market funds;
- Investors placed \$377 billion into US bond funds;
- US stock funds suffered net outflows of \$26 billion;

This trend has continued so far in 2010. In their manic quest for higher yields, these investors are setting themselves up for a rude awakening when interest rates eventually begin to rise.

In our experience, the average person knows less about bonds than they do about stocks. For most people, they think of the US Treasury EE Savings Bonds you buy at the bank when you mention bonds. This is not what bond mutual funds are buying for their portfolios. Rather, they are buying Treasury Bills, Notes, and Bonds, bonds issued by companies and bonds from pseudo government agencies like Fannie Mae and Freddie Mac.

We won't go into an exhaustive discussion of bonds, but we do think it's important that anyone who buys any bond or bond mutual fund understand two things:

- Bond prices move inversely to interest rates - interest rates go up, bond prices go down and vice versa;
- Every bond or bond fund has a "duration". It's a measure of the bond fund's sensitivity to interest rates. The duration tells you how much the bond fund's value changes for every 1% change in interest rates.

*Example - Pimco Total Return, the largest US bond fund by a long shot, has an average duration of 4.45. It's current 30-day SEC yield is 2.25%. If interest rates were to go up 1%, the share price or NAV of Total Return would drop by 4.45%.*

thoroughly enjoy working on. After a brake overhaul planned for June, it'll be ready for our road trip to Chicago this summer to visit clients.

#### From Brad Loper -

The warming weather is slowly eroding my excuses for postponing outdoor projects on the house and cars. Of course, the damage to the trees on my property caused by the record snowfall from the back-to-back storms has only added to my chores. I suppose it is time to pull out the bow saws, pruners, and ladders.

Fortunately, nothing is major enough to warrant a chain saw.

On the positive side, it will be nice to get outside for a reason other than shoveling snow.

#### From Mahesh

**Desai** - One of my pastimes is to do some recreational outdoor gardening. In addition to the deck construction project from last year, I spent a fair amount of time last Fall planting all kinds of new bulbs in various mulch beds. With the abundant snowfall from this past month finally melted away, and temperatures finally returning to normal, Spring is truly around the corner. I can't wait to see the burst of colors come out of the ground in the coming weeks to enjoy the fruits of my labor from last Fall.

*You still get the yield, but your investment has now dropped by more money than you're receiving in dividends.*

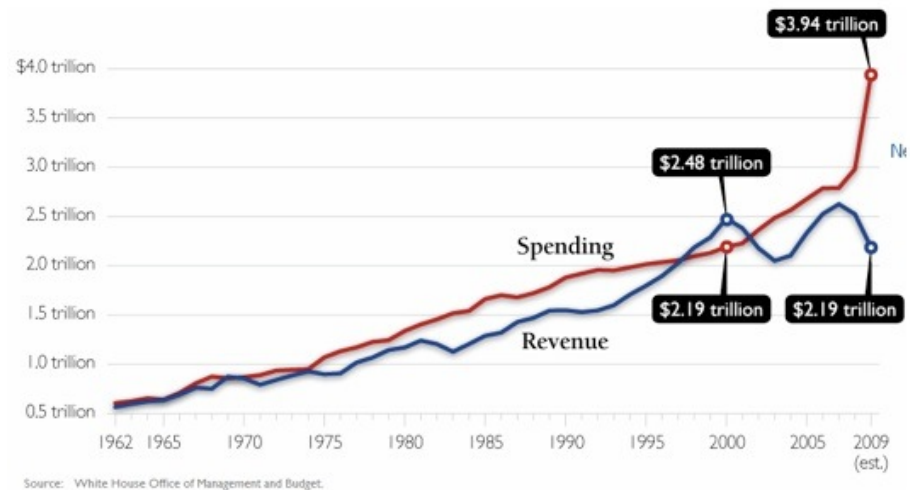
Considering interest rates continue to hover at historic lows - practically zero - it would seem to us that eventually they are going to rise. And if that is the case, why put money into an investment that has such a high likelihood of losing money? The answer is that these folks don't understand the risk.

Here's our recommendations if you're frustrated by low yields on your money:

- For short-term money that you'll need in 24 months or less, look for FDIC insured savings accounts with the highest yields. Bankrate.com lists some. ING Direct Orange Savings is another if you don't mind banking over the internet. These savings accounts have interest rates around 1%.
- For long-term money, consider gold and inverse bond funds. We've discussed our reasoning for higher gold prices ad nauseum in this newsletter, and it still holds. The inverse bond funds are designed to rise in value over time as interest rates begin to rise. A trend we see for the future.
- Get used to low yields for the next 12-18 months. Although we see rates rising eventually, we don't see them rising appreciably in the near future due to continuing economic weakness.
- **And the most important recommendation:** Don't let your emotions rule your investment decisions. Chasing high yields (or returns in general) is a recipe for losses. Instead, have a well-thought out game plan for your investments and stick to it.

## Spending More Than You Earn...

A graph of the Federal government's spending versus revenue. Not exactly a picture of fiscal responsibility. Do you run your own household budget like this?





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