



"Buy bonds, wear diamonds" is the old Wall Street adage. Investors have long prized their bond portfolios as a safe harbinger of their wealth. That said, bonds have been behaving out of character since June. Prices should go UP when interest rates go DOWN.....but this time is different. Only US Treasuries are following the rule-of-thumb. The rest of the bond market is making up its own rules as it goes along. This Summer, we professional bond traders made the rules by driving interest rates DOWN. Then the Fed stepped in and took over by cutting rates 75 bps this Fall.

Don't blame inflation. It's just fine, thank you. Further, if inflation WERE a problem, you'd see rates RISE, not fall. We blame bond market swings on the worldwide credit crunch wherein investors stopped buying bond issues by banks and insurance companies just because investors still don't know for sure who is holding the next bombshell in its mortgage pools. This uncertainty drives smart investors to the safe haven provided by US Treasuries and away from bank-related paper. This is why PRICES of our corporate bonds and preferred stocks are trading at bargain-basement prices.

Bonds are similar to your own home mortgage: some are fixed and some are variable. If you own a fixed rate mortgage and interest rates go up or down, your payment doesn't change. If you have bought your house to live in for the long-term, it does not really matter if home prices in your neighborhood are changing day to day: you are still enjoying the same dwelling. These are the comfort of a fixed rate mortgage as well as a fixed rate bond or preferred stock: the annual income never changes. On the other hand, there is a vital need for variable-rate bonds and preferred stocks because the annual income DOES increase as interest rates rise, as in the case of inflationary times. So, these floating rate securities are a HEDGE against the fixed-rate bonds and against inflation.

In closing, since today is Pearl Harbor Day, please join us by calling your favorite veteran and taking him/her out to the movies. It's the least we can do. Enjoy your holiday shopping this weekend: Only 17 days to go until Santa's deliveries.

INDEX	12.7.2007	12.31.2006	%Change
DOW JONES	13,625	12,463	+9.32%
S&P 500	1,504	1,418	+6.06%
NASDAQ	2,706	2,415	+12.05%
Bond YIELD	4.12%	4.71%	-12.52%*

Bond Prices



Bond Yield %



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