NEEDLE IN A HAYSTACK

As municipal bond managers for over 30 years, we have seen many markets. We can say with high level of conviction that we have never been more concerned and nervous about what is to come. As we enter the beginning of 2021, our economy is in a huge economic bubble. We were in a stock and bond market bubble before the pandemic and this bubble has only inflated over the last several months with trillions of dollars pumped into the economy, inflating most asset classes. Worldwide debt has reached levels never imagined.

In our opinion, over the next several years, we will see little growth in our economy and a lot of volatility. We will move into a period of stagflation when our equity and bond markets are at all-time highs. Yes, there will be continued money printing and stimulus to try and thwart off any economic disaster, but at any time, we can have a major prolonged correction in all markets. It is long overdue unfortunately.

So, what is one to do now and where do you invest to avoid what we think may happen?

Within the 3.6 trillion-dollar municipal market is a segment that many professional municipal bond managers call “kicker bonds.” These are bonds that generally have short calls and kick to higher-than-average yield to maturities than simple non- callable bonds. Taking this one step further, there is even a smaller segment within the kicker or callable muni market that we have identified over many years trading and analyzing the market and that we have made into our own strategy.

These type of kicker bonds are 30-day callable muni bonds that are very seasoned, issued 10 to 15 years ago. These types of bonds tend to have the high yield to maturities as the coupons are still very high since they have not been called and they are purchased at very low dollar prices because of the short call. The possibility that bonds can be called any 30 days at 100 call price keeps many traders and fund managers away mainly because they do not want to spend the time doing the research on the callability of the bonds. The high coupons, low dollar prices, and short duration of these bonds also reduces any significant price movements in these bonds even in times of dislocation.

These types of bonds are truly needles in a haystack, and we have made these type of callable bonds the main type of bonds we purchase for the PSP Short Duration Strategy. We spend the time and do the research. This is what makes our strategy so unique and attractive to investors who understand what we are doing. The 2.5% to 2.75% tax-free returns, for less than 1-year duration, that we continue to achieve for our investors may be the answer to where one may invest within an uncertain economic future and still achieve attractive tax-free returns with very low volatility and very low risk.

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