



## Higher Yields to Come? (3/6/15)

We are positioned, welcome, and patiently await the opportunity to exchange lower volatility (shorter maturity/lower yielding) bonds, for higher volatility (longer maturity/higher yielding) bonds. As is typical, this opportunity should coincide with maximum investor fear and ugly newspaper headlines.

*The Duration of our Composites is at or Near the Lowest Levels in 10 Years. Why?*

- While holding the opinion that interest rates should remain low (outlook since 2006) in the future, markets rarely move in a straight line or stay put.
- In general, our management team has been shrinking the level of interest rate sensitivity (duration) in our client portfolios, and/or allowing the duration to lessen through the passage of time.
- As we have all watched, markets of all “stripes” move from overbought (everyone is optimistic) to oversold (everyone is pessimistic). The interest rate markets are no different.
- As we have stated on many occasions over the past years, the economy cannot withstand meaningfully and lasting periods of higher interest rate levels.
- While all eyes are focused on what the Federal Reserve may or may not do, longer term bond yields have begun their ascent higher.
- The question now is whether or not we are in the neutral or oversold part of the trading range.
- To us, it is likely that yields can rise further. Using U.S. 10-year Treasury bonds as a proxy, it is possible that yields could rise in the 2.60% to 3% range before the advance is complete.

I look forward to reporting to you in the near future.

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