



# Best Income Plays in a Low Yield World

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**17 Years a *Forbes* Columnist**

**June 2012**

**AAII**

# Don't Hope or Pray the Fed Will Bail the Markets Out

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# August 1982 Began One of the Greatest Bond Bull Markets in History...

## *Data Points*

	<b>August 1982</b>	<b>May 2012</b>
<b>Fed Funds Rate</b>	<b>10.125%</b>	<b>0.125%</b>
<b>Prime Rate</b>	<b>14.39%</b>	<b>3.25%</b>
<b>10 Year UST YLD</b>	<b>13.60%</b>	<b>1.45%</b>
<b>Dividend YLD</b>	<b>6.60%</b>	<b>2.22%</b>
<b>Top Marginal Tax Rate</b>	<b>50%</b>	<b>35%</b>
<b>Capital Gains Tax Rate</b>	<b>20%</b>	<b>15%</b>



# McClellan Financial Publications

Chart In Focus

## Full-On Panic Into T-Bonds



June 01, 2012

# You've Got to Lower Your Quality Expectations





# Don't Get Complacent

*Just because prices are up  
Just because yields are down  
Doesn't mean your issuer is  
doing fine!*

*This goes for ~~municipals~~ as  
well as ~~corporate~~ bonds*

*Looking at Your Statement  
and Ratings isn't Worthwhile!*

# Details, Details, Details

*Capital Structure*

*Change of Control*

*Debt Distribution (Runway)*

*On the Run vs. Off the Run*

*Structure: Callables vs. Non-Callables*

*Municipal Hazards:*

*COP's, Interest Rate Swaps,*

*What's Essential?*

# Where Are You in the Capital Structure?

*Senior Secured*  
*Senior Debt*  
*Subordinated*  
*Convertibles*  
*Preferred Equity*  
*Equity*



# ICAHN Ent. Covenant Default Info...

ICAHN ENTER/FIN IEP 8 01/15/18

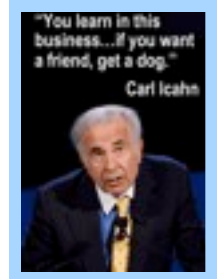
Covenant/Default Information

Type, Collateral Information		Covenants	
Type of Bond		5) Negative Pledge	Yes
Collateral Description		6) Change of Control	Yes
1) Use of Proceeds	Bond Exchange	Fundamental Change	No
Additional Proceeds		7) Limit of Indebtedness	Yes
2) Grace Period for Miss	30 days	8) Cross Default	Yes
Step Provision	Yes	Negative Covenant	Yes
Step Trigger	Registration Rights	9) Certain Sales of Assets	Yes
Tefra C	No	Restriction on Activities	Yes
Tefra D	No	Debt Service Coverage Ratio	No
Erisa	No	Free Cash Flow To Debt Service Ratio	Yes
		Restrictive Covenant	Yes
		10) Merger Restrictions	Yes
		Limitation on Sale-and-Leaseback	No
		Limitation on Subsidiary Debt	No
		11) Restricted Payments	Yes
		Ratings Trigger	No
		Collective Action Clause	No
		Material Adverse Change Clause	No
		Force Majeure	No
Events of Default			
Missed Filings	Yes		
3) Percentage of Bondholders	Yes		
4) Litigation	Yes		
Notes			

# Best Corporate Bonds With Yields You'll Appreciate

**Icahn Enterprises Financial 8% due Jan 15, 2018 Callable 1.15.14 @ 104**

**YTW: 6.65%, YTM: 7.00% COC: Yes**



**Gap Inc. 5.95% due April 12, 2021 Callable 1.12.21. @ 100**

**YTW: 5.54%, YTM: 5.55% COC: Yes**



**BE Aerospace 5.25% due April 1, 2022 Callable 4.1.17 @ 102.63**

**YTW: 5.25%, YTM: 5.25% COC: Yes**



**CIT Group Inc. 5% due May 15, 2017**

**YTM: 5.30% COC: Yes**

**LINN Energy LLC 7.75% due Feb 1, 2021 Callable 9.15.15 @ 103.88**



# Best Taxable Income Plays



## Double Line Total Return Fund

**DLTNX**

*[http://www.doublelinefunds.com/pdf/Total\\_Return\\_Fact\\_Sheet.pdf](http://www.doublelinefunds.com/pdf/Total_Return_Fact_Sheet.pdf)*

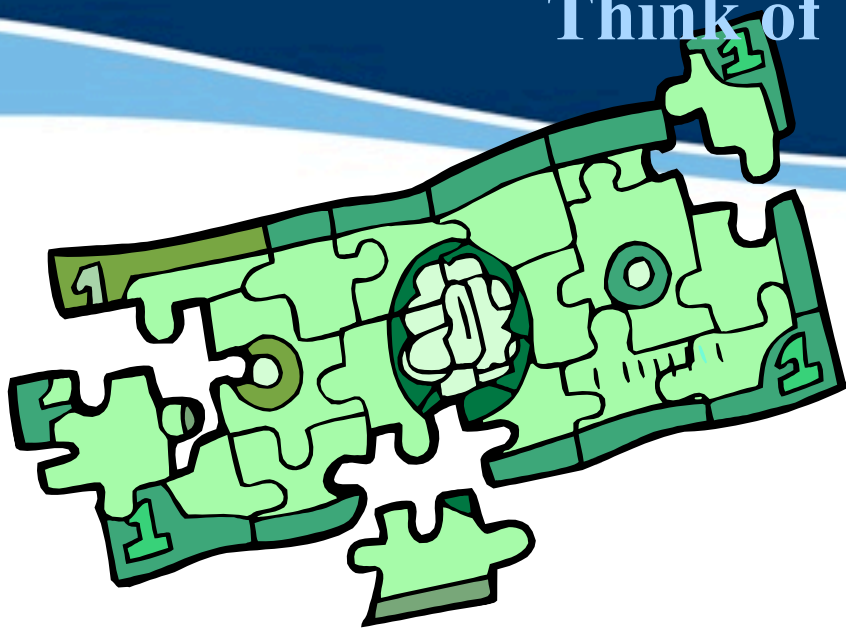


# Are Municipal Bonds a Good Income Play??

It Depends...



# Think of Your Bond Portfolio



As a Puzzle  
**NOT**  
A Grab Bag of  
Bonds



*EMMA = Electronic Municipal Market Access*

- Official Statement
- Trades
- Continuing Disclosure:

Material Events

Financials

Upgrades/Downgrades of Insurers

Technical Defaults

= Everything you  
need to know



# San Jose Municipal Bond



## MUNICIPAL BOND DESCRIPTION Page 1/ 3

SAN JOSE CA  
 PARKS & PUB SAFETY PROJS  
 TICKER: SJS CPN: 4 MATURITY: 9/01/2017 DATED: 6/20/2007 STATE:CA  
 CUSIP:798135YD(5)  
 BBGID:BBG0010S60Y1

9) TDH MSRB Trades		
SECURITY INFORMATION		
ISSUE TYPE	GENERAL OBLIGATION UNLTD	
MATURITY TYPE	1) CALL	
COUPON TYPE	FIXED	
PRICE/YIELD @	ISSUE 100.000/ 4.000	
COUPON FREQ.	SEMI-ANNUAL	
TAX PROVISION	FED & ST TAX-EXEMPT	
FORM	BOOK-ENTRY	
RATINGS		WATCH OUTLK
MOODY'S		
UNDERLYING	Aa1	STA
S&P	AA+	NEG
FITCH	AA+	
12) RCHG Recent rating changes		
33) Setup rating alerts		

TRADING INFORMATION			
1ST SETTLE DATE	6/20/2007		
NEXT SETTLEMENT DATE	5/17/2012		
INTEREST ACCRUAL DATE	6/20/2007		
1ST COUPON DATE	3/01/2008		
NEXT PAR CALL	9/01/2015 @ 100		
SALE DATE	6/06/2007		
FORMAL AWARD	6/06/2007 14:30		
FIRST TRADE	6/06/2007 15:30		
Notes	Personal	Office	Firm
37) NOTM	24) NOT	25) ONTS	26) FNTS
11) CF View Documents			
35) ISSD Issuer Description			
36) FA Issuer Financial Analysis			
29) Issuer Web Page			



# San Jose

## 2011-2012 Adopted Budget Message Budget Overview

*Fund Forecast Update* (table 2) shows, we continue to face significant deficits for the foreseeable future. With \$34.9 million in one-time solutions included in the 2011-2012 Adopted Budget, the cumulative deficit total with the four out years in the forecast would be \$113.2 million, and there is any number of other factors that could change these projections.

**2012-2016 General Fund Forecast Update (\$ in millions)**

**(Table 2)**

	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>2014-2015</b>	<b>2015-2016</b>	<b>Total</b>
<b>Projected Base Annual Shortfall (Feb 2011 Forecast)</b>	<b>(\$115.1)</b>	<b>(\$43.1)</b>	<b>(\$25.1)</b>	<b>(\$10.0)</b>	<b>(\$0.1)</b>	<b>(\$193.4)</b>
<b>Total Cumulative Deficit</b>	<b>(\$115.1)</b>	<b>(\$158.2)</b>	<b>(\$183.3)</b>	<b>(\$193.4)</b>	<b>(\$193.4)</b>	<b>(\$193.4)</b>

# Muniland: Little Supply vs Huge Demand

**May – August: New Muni Supply = \$120 million**

**Principal payments + Redemptions +  
Coupon Payments = \$140 million**

**A Mismatch Favoring  
Low Municipal Bond  
Yields and a Well Bid  
Market...**

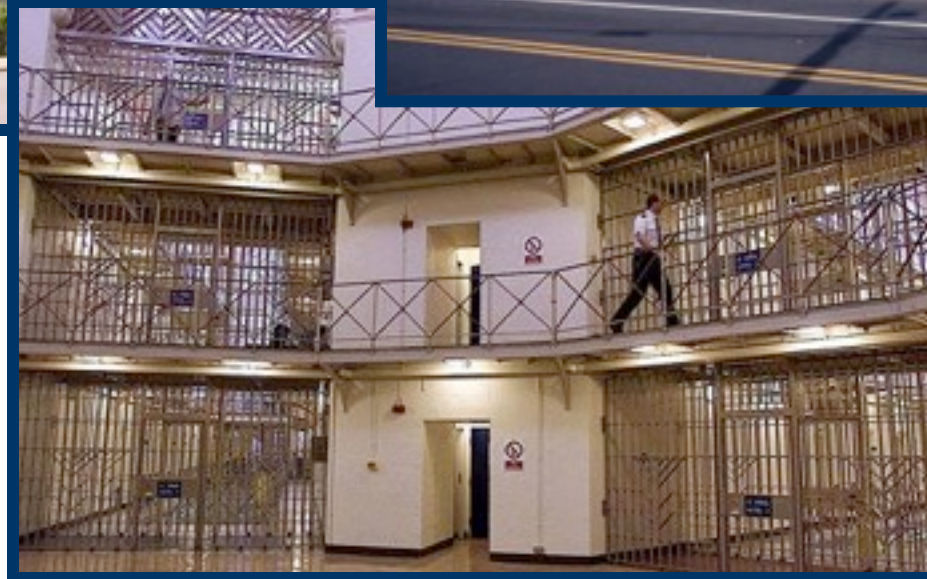


# Essential Services -- Municipal

*Firehouse*



*Civic Center*



*Prison*

BLOOMBERG DAILY GENERIC GAS YIELDS

MONDAY CLOSE Date 06/04/12

Term	AAA (SECTOR 49)	AA (SECTOR 104)	A (SECTOR 159)	BAA1 (SECTOR 631)	AAA MUNICIPAL AS % OF CURRENT US GOVT. 'S
1 Yr 2013	0.21	0.41	0.93	0.92	102.30
2 Yr 2014	0.35	0.55	1.12	1.20	120.93
3 Yr 2015	0.47	0.72	1.30	1.53	136.98
4 Yr 2016	0.61	0.90	1 $\frac{1}{2}$	1.76	109.21
5 Yr 2017	0.79	1.10	1.73	1.97	115.55
7 Yr 2019	1 $\frac{1}{4}$	1.52	2.26	2.42	123.14
9 Yr 2021	1.72	2.01	2.77	2.97	122.52
10 Yr 2022	1.95	2.26	2.99	3.29	122.01
12 Yr 2024	2.44	2.73	3.31	3.77	140.17
14 Yr 2026	2.89	3.11	3.55	4.06	153.45
15 Yr 2027	3.05	3 $\frac{1}{4}$	3.68	4.23	156.04
17 Yr 2029	3.23	3.45	3.90	4.44	154.02
19 Yr 2031	3.32	3.60	4.12	4.46	148.24
20 Yr 2032	3.34	3.68	4.24	4.62	144.53
25 Yr 2037	3.46	4.17	4.71	5.88	140.25
30 Yr 2042	3.47	4.22	4.81	5.88	132.27

# Recommendations

## Closed End Municipal Fund Recommendations

*MYI*

*Blackrock National Closed End Fund*

*Small discount to NAV*

*37% Leveraged, 1.32% Fees*

*5.87% Distribution Rate*

*NPF*

*Nuveen Premier Municipal Income Fund*

*Small Discount to NAV*

*37% Leveraged, 1.55% Fees*

*5.83% Distribution Rate*

# **Envision Capital Management, Inc.**

## **Fixed Income Money Managers**

**Minimum account size \$500,000**

**Fees:**

- **Municipals .43%**
- **Investment Grade Corporates .60%**
- **Split-Rated Corporates .75%**
- **High yield 1%**

**800.400.0989**

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