



Perspective on
a Fixed-Income Portfolio

A fixed-income security is purchased to derive a constant stream of income over the life of the investment!

Fixed-Income Portfolio Selection

The prudent investor must exercise sound judgment in choosing a portfolio that satisfies *specific* investment objectives. Our role is to assist our clients in developing an *appropriate* investment strategy that guides the development of an *ideal portfolio* to satisfy objectives ... but in a manner that is consistent with the caution that should be exercised as one enters the market place. This identifies the selection of the choices for what they should buy.

When you enter the financial markets *you really have more control* of your destiny than you may think! You *are given* choices in your investment selection and are actually *lead* to options. Look at the steps for the “givens”:

(1) How much to invest?

The amount to invest is a given ... that’s the easy one! The other “givens” are as easy.

(2) How long to invest?

Identify when the money is needed back ... that is the maturity. A person can, or should be able, to predict future cash flow needs (e.g., college tuition, age of retirement, buying a new or second home, etc.). By matching the length of the investment’s life to when the money will be required, leads to the maturity date.

(3) How much risk tolerance?

The final choice is risk tolerance. The *credit risk* (the borrower’s willingness and ability to pay); and *market risk* (the fundamental or technical changes in the market that cause the value to change) is, many times, predetermined.

How much risk is acceptable for the client’s profile to ensure a comfort level of return of principal?

(4) Now, what to select for the investment?

With answers to the above “givens” you will find that you have been *lead* the selection of the investments in the portfolio. You know: “*How much to spend*”, “*When it should mature*”, and “*The risk that can be tolerated*”. You are lead to the choice because “what you *may* buy is what you *can* buy”. You have satisfied your clients needs and have chosen an appropriate portfolio that satisfies their investment objectives.

The Inquiry Pitfall (or Pratfall!)

Unfortunately, too often a typical inquiry is for a “high yield but in a short maturity”. Where is the strategy here? If a client is *yield* driven then they are backing into a portfolio. The prudent investor realizes that the yield *follows* the choice. *It* then also becomes a “given”!

By following investment objectives you know the amount of \$ that are to be invested; how long the investment is to be tied up; and the risk that can be tolerated. The *objectives dictate the choice* ... the *market dictates the yield*! The audacity of the client’s expectations that the yield drives the investment choice is what typically leads to poor performance in the bond market.

The pitfall to overcome is not “*What* to buy” ... but “*What to* buy”

Your clients’ worked hard for their money ... make it *work* for them! We are not talking a “long-term” strategy. We are not talking a “short-term” strategy either. We are talking a *consistent* strategy ... the operative word being *strategy*!