Letter to the Editor

June 8, 2010

The following is in response to our article, Five Strategies for a Rising Rate Environment, by Kane Cotton and Jonathan Scheid, which appeared last week.

I read with interest the above article. It was a good article and right in the mainstream.

My only comment is that the article left out a key strategy of how to deal with rising interest rates. Our solution to this problem is to create a custom bond ladder for each of our clients, as we described in our book, *Bonds: The Unbeaten Path to Secure Investment Growth* (Bloomberg Press, 2007).

Our clients hold individual bonds rather than bond funds. To see our reasons why, read our article Buy Bonds and not Bond Funds. In this posture, if a client has a bond ladder, rising interest rates are the upside case and not a problem. If interest rates rise, a client can reinvest their coupons, and bond proceeds as the bonds come due, in higher yielding bonds. In addition, if a client has a bond ladder, every year their entire bond ladder gets one year shorter.

When a bond is less than two years from its maturity date, it is unusual for it to sell at much less than its face value. Thus, it can be sold at a small loss and the proceeds reinvested in a longer term and higher yielding bond.

In summary, we pray every day for interest rates to go up. If over time interest rates on long-term tax-free muni bonds increase from 4% to 6%, our clients' cash flow will increase by 50% over time. We don't mark-to-market. Our clients are interested in cash flow and generally hold all bonds until they come due, so a mark-to-market is not meaningful. Cash is king and cash flow can be used by individual investors to live the good life.

Warmest regards,

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