

## DOES IT MAKE ANY SENSE TO BUY (OR HOLD) BONDS NOW?

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Since 2008, the Fed has pumped lots of money into the economy, making money “cheaper.” Since the price of money is the interest rate it costs to borrow money, interest rates have come down. And since the market price of bonds moves inverse to the rise and fall of interest rates, bond prices have gone up.

“Suppose the ABC company offers a new issue of bonds carrying a 7% coupon. It would pay you \$70 a year in interest. You decide this is a good deal, so you purchase a bond at its par value, \$1,000. Suppose that later that year, interest rates in general go up. If new bonds costing \$1,000 are paying an 8% coupon (\$80 a year in interest), buyers will be reluctant to pay you face value (\$1,000) for your 7% ABC bond. In order to sell, you'd have to offer your bond at a lower price – a discount – that would enable it to generate approximately 8% to the new owner. In this case, that would mean a price of about \$875.” (from Investopedia, or Yahoo, or etc.)

Today, as the Fed reverses course and starts taking money back out of the economy, interest rates will rise, and bonds prices will go down. In fact, bond prices have fallen just in anticipation of the Fed's expected move. If you hold bonds, or bond funds, you have seen their market values drop this year. Many people, including me, have sold bonds and bond funds in 2013.

“For every 1% increase in interest rates, expect the 10-year U.S. Treasury bond to lose 8.96% in price.”

“Duration’ = The change in the value of a fixed income security that will result from a 1% change in interest rates. Duration is stated in years. For example, a 5-year duration means the bond will decrease in value by 5% if interest rates rise 1% and increase in value by 5% if interest rates fall 1%. Duration is a weighted measure of the length of time the bond will pay out. Unlike maturity, duration takes into account interest payments that occur throughout the course of holding the bond.” [ Read more: <http://www.investorwords.com/1602/duration.html#ixzz2Z7G4evkN> ]

In the face of rising, and expected-to-rise interest rates, what should we you do with our cash?

Gurus on TV and in print say, “buy good stocks that pay solid dividends.” I agree with that advice, but should we hold NO bonds at all?

Traditional portfolio gurus always point to this Rule of Thumb: Investors, especially retirees, should hold 40% to 60% of their wealth in bonds. Is that rule out the window now?

## HOW BIG IS YOUR PENSION ?

The first thing to say about that “Rule” is -- it depends on what kind of **pension** you have.

If you have a big defined-benefit pension -- like a generous pension from an oil company; or from a state government; or from a private corporation owned by Berkshire Hathaway -- then you are not depending so much on your investments for your monthly income.

In fact, *you **already have** a huge investment in bonds* – you just may not know it. Why? Because most of the assets underlying defined-benefit pension plans are bonds.

But if your only pension is like the small one I get from Social Security – then you need to have more of your personal investment portfolio invested in bonds. At least, that is what I believe.

**Remember** – Bond interest (except for municipal bonds) is taxable at full ordinary-income rates, and not at the lower 15% applicable to stock dividends. **So Bonds should be held in your IRA account, not in your taxable account.**

Alas, if you have a bundle of cash to invest and you look at buying bonds now, you see really low interest rates. The 10-year Treasury bond rate is only ~2.6%! If you wait a couple of years to buy, you might get 4%, 5%, or more. But in the meantime, you will get only 0.5% on your money-market (cash) fund. Not a pretty picture either way!

So should we buy any bonds or bond funds? And if so, which ones?

***I can only tell you what I myself feel comfortable doing. You should consult your own financial advisor and make up your own mind about what YOU should do.***

### **BOND SAFETY – DEFINING “DEFAULT RISK”**

People buy bonds because they are usually safer than stocks. Sure, bonds can drop as interest rates rise, but interest rates rise pretty slowly. But the assassination of a President, an epidemic of disease, and a host of other news events can cause stocks to drop overnight.

On the other hand, if you own bonds **and hold them to maturity**, you WILL get your money back, with interest... unless the issuer **defaults**. A “default” occurs when the issuer violates one of the bond indenture’s financial covenants; or, more seriously, misses a payment.

But a default usually does NOT mean you lose all the money you invested in a bond. A default just means that the bond-issuer’s creditors take over the business and reorganize or liquidate its assets. After typical defaults, bond-holders still end up getting about half their principal back – after a company reorganizes in bankruptcy or is sold off. Meanwhile, Common stock holders typically get.... **nothing**.

Many companies’ *stock dividends* can also be very safe. Many corporations are big, grow steadily, and have very conservative balance sheets. Johnson & Johnson (JNJ) is an example. A number of such stocks have been singled out as “Dividend Aristocrats.” So their stock price might drop in response to world events, but their dividends look pretty darned safe. Publicly-rated utilities – Southern Company, Duke – pay upwards of 4% dividends. It’s hard to think of a business that’s safer than a regulated utility company. But this is not a presentation about stocks.

*Back to bonds:*

### **BOND SAFETY -- BOND RATINGS**

I personally would not buy Treasury bonds of any maturity now. The yields are just too low.

Their yields are low because of all the bonds out there, U.S. Treasury bonds are the “safest” – meaning they have the least risk of default. They used to be rated AAA; but now I think they are rated AA; which is still very, very safe.

I personally feel comfortable buying a **diverse** portfolio of “investment-grade” corporate bonds, which means bonds with ratings ranging down to BBB-. Here is a chart of bonds ratings, using the Standard & Poors (S&P) ratings system:

**“Investment-Grade” Bonds**

AAA+, AAA, and AAA-  
 AA+, AA, and AA-  
 A+, A, and A-  
 BBB+, BBB, and BBB-

**“Below Investment-Grade” Bonds, a.k.a. “High-Yield Bonds, a.k.a. “Junk Bonds”**

BB+, BB, and BB-  
 B+, B, and B-  
 C and below (by definition, C-rated bonds are already in default)

Moody's has a parallel rating system, with the same gradations. So AA+ under S&P corresponds to Aa1 in the Moody's system; and BBB- under S&P equals Baa3 under Moody's.

Bonds Funds and ETF's hold a whole bunch of bonds, but online you can find out the weighted-average credit rating of the bonds in a Fund – e.g. by looking it up on Morningstar. (www.morningstar.com)

Why am I comfortable holding bonds rated as low as BBB-? If you look at the following S&P study.....

<http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245348978068>

Table #9 shows that the default rate for BBB- bonds for 2012 was “0.00%” – i.e. too small to report. Same for 2011 and 2010... and for nearly all years going back to 2002. The year 2002 had a BBB- default rate worth reporting – at 1.33%; and 2009 had a default rate of 1.11%.

But I never hold only BBB- bonds.... I hold a lot of A-, and BBB+, and BBB bonds as well.

The average credit rating of my bond holdings is ~BBB or even BBB+.

The default rate for BBB was 0.66% in 2002 and 0.60% in 2008; all other years back to 1991 were insignificant (1991 had 0.74%).

So, say I buy a group of BBB bonds maturing in 5 years. Say they pay 6% per year. Now if I apply the historical 0.66% default rate to that group of bonds, the Yield-to-Maturity (YTM) calculator on my Fidelity website tells me that my bonds, as a group, are now going to earn 5.88% per year if I hold them until maturity. Below is some additional detail:

So: say you paid \$1,000 each for 100 different bonds, so you have \$100,000 invested. Each bond is rated BBB, and say they each are paying you 6% or \$60 a year each, for a total of \$6,000 per year.

Then, 0.66% of the bonds default, as happened in 2002.

So two-thirds of one bond defaults. You may not lose all the annual interest on that 2/3 of that one bond, but we'll say you do lose it all. So that's an annual loss of \$40; and so now your yearly interest is \$5,960 = 5.96% on your original \$100,000 investment.

Assume you get the typical 50-cents on the dollar in principal back from the bankruptcy court. So you end up losing 50% of 2/3 of one bond, i.e., \$333 which = a 0.33% loss of your original invested principal. So at maturity you will now get back not your full \$100,000, but rather \$99,667.

The mathematics of the YTM Calculator are pretty complex. But we can get a common-sense answer that's pretty close, using this Back-of-the-Envelope calculation: If we just spread that \$333 principal loss out over the 5 years, that's a loss of \$67 per year. So this crude back-of-the-envelope look tells you that you will effectively be getting  $\$5,960 - \$67 = \$5,893$  in "interest" per year, or 5.893% on your original investment.

So: If you invest expecting to get 6%, can you live with getting only 5.88%? If so, then you can get comfortable investing in a portfolio of corporate bonds that are rated BBB on average.

The above discussion was about "Default Risk." Now let's talk about "Interest-Rate Risk."

### **INTEREST-RATE RISK**

People are asking: "What about the **Fed** doing things to the money supply to raise general interest rates, and as a by-product hurting the market value of my bonds during the 5 years I own them?"

A bond's "duration" is a weighted-average of the bond's life – it is similar to, but always shorter than, the bond's maturity.

It is a fact of bond mathematics that the longer the maturity of your bond, the more its market value will drop when the general level of interest rates rises. This risk of a drop in the market price of a bond is called "interest-rate risk." The amount of drop is calculated and reported by a bond's "duration."

"Duration" = The change in the value of a fixed income security that will result from a 1% change in interest rates. Duration is stated in years. For example, a 5-year duration means the bond will decrease in value by 5% if interest rates rise 1% and increase in value by 5% if interest rates fall 1%. Duration is a weighted measure of the length of time the bond will pay out. Unlike maturity, duration takes into account interest payments that occur throughout the course of holding the bond.

Read more: <http://www.investorwords.com/1602/duration.html#ixzz2Z7G4evkN>

All good brokerages and full investment services will list or report the duration of the bonds and funds they are quoting or talking about.

### **AVOID INTEREST-RATE RISK: HOLD BONDS UNTIL MATURITY**

Despite a bond's vulnerability to "interest-rate risk," if you **hold bond until maturity**, you don't care what the market price of the bonds does in the meantime.

So say you buy an individual bond – say a 5.5% bond that matures in 7 years. Maybe 3 years out, the Fed has raised interest rates a lot! If you try to sell that bond, you will not get what you paid for it. In other words, the bond is selling at a discount. If you sell it, then you might have earned only 4% or 3% over the 3 years you held the bond.

But if you hold it for the entire 7 years – until it matures – you WILL have earned your full 5.5%.

The same thing happens if you buy a 7-year Certificate of Deposit (a CD) at a bank. Only there is no secondary MARKET for CDs, so you never SEE the decline in the CD's market value 3 years out. In fact, you are not even allowed to sell ("redeem") a CD back to the bank before it matures without the bank charging you a really big penalty.

Still – it's no fun to watch the "value" of your bonds go up and down. Therefore, personally, I never buy a bond or bond fund whose duration is longer than ~7 years.

A nice feature of **high-yield** bonds is that they respond somewhat **less** to a rise in interest rates than do super-safe U.S. treasury bonds. Many people describe this phenomenon by saying that "high-yield bonds act more like equities" than do the most conservative bonds.

### **AVOID INTEREST-RATE RISK – BUY FLOATING RATE BONDS**

There is another way to avoid interest-rate risk: Buy **Floating-rate** Bonds Funds.

**Personally, this is the best thing I see right now out there in the bond world.**

Floating-Rate Funds hold bank-loans and corporate bonds whose interest rates **change** – their interest rates are tied to the general level of interest rates – usually to the bank "prime rate" or to the LIBOR = London Inter-bank Rate.

I personally own 2 Floating-Rate Funds – one ETF and one mutual fund:

[Possibly display one of them on Morningstar]

**BKLN = Power Shares Senior Loan Portfolio ETF.**

**Yield = 4.73%. It holds 56% bank loans, and 34% corporate floating-rate bonds. The average rating is B+, which is well below investment-grade. Expenses are 0.65%.**

**FFRHX = Fidelity Floating Rate High Income Mutual Fund.**

**Yield = 2.93% (3.16% TTM-yield). It holds 74% bank loans; 8% corporate loans. The average rating is BB. Expenses are 0.71%.**

Both of these funds' holdings are rated below "investment grade." However, the Rating Agencies don't really rate bank loans. That would be far too much work, and they often don't have access to the financial data for companies that do not file with the SEC. So the agencies just throw up their hands and say "these funds are BB" or "B."

Bank loans are made by bankers. They are highly structured – they have all kinds of covenants telling the borrowing corporation what it can and cannot do. A banker continually watches the financial statements of the borrower, meets with company executives, and oversees their business. When the company violates some financial ratio or other, the bankers step in and take increasing control. In fact, many of these bank loans are SECURED loans, i.e. the bank holds *collateral* – e.g. real estate – which it can foreclose on if the loan defaults. So many bond analysts, (and former analysts including me), think that most bank loans actually ARE investment grade, especially in an improving economy.

[ If time permits, tell anecdote about Petro-Lewis ]

### **( By the way -- DON'T BUY CLOSED-END BOND FUNDS )**

Don't buy closed-end bond funds Or **any** CEFs for that matter, unless you can watch them as often – like once or twice a day.

Closed-end funds are very volatile, for two reasons: First, they are thinly-traded, so when trouble arrives, everyone heads for the same small exit door. Second, they are almost always leveraged, i.e. the CEFs have borrowed money in an effort to boost their returns. But when trouble comes, leverage works to magnify losses.

“Forgetting that most CEFs are akin to micro-cap stocks with very thin trading volumes, individual investors race for the exits, sending their CEF share price down faster than the underlying NAV decline. The discount widening engenders more fear, which leads to more selling, until the vicious cycle eventually wears itself out. While such timid investors are busy dumping shares, the three men on my panel [professional closed-end fund traders] are on the other end, buying shares at bargain-bin prices.” -- Morningstar report, ~7/14/13.

### **AVOID INTEREST-RATE RISK – BUY DEFINED-MATURITY FUNDS**

Until recently, people had to buy individual bonds in order to hold them to maturity, because nearly all bonds funds are active buyers and sellers of bonds, leaving their investors vulnerable to interest-rate risk. But now we have a handful of “Defined-maturity Bond Funds we can buy.

Many of the Defined-maturity funds are quite new. For ETFs, be sure to check the number of shares outstanding, and the daily trading volume before you buy.

The Kiplinger Report writes:

Defined-maturity bond funds launched in recent years cover a range of fixed-income holdings, from tax-free municipals to taxable corporate and high-yield bonds.

#### [“Pros” of Defined-Maturity Funds ]

Compared with individual bond ladders, the funds' diversification benefits "reduce the risk dramatically," says Timothy Strauts, ETF analyst at Morningstar.

The funds also offer a pricing advantage over individual bonds. Small investors buying **individual** bonds often pay a hefty markup that's built into the price of the bond, making it hard to gauge the fairness of the price.

Investors [also] pay **ongoing expenses** for mutual funds and ETFs that are not charged on individual bonds, **but these fees are relatively low**. Fidelity's Municipal Income funds, for example, charge annual expenses of 0.4% of assets.

And investors who need cash in an emergency can easily sell the mutual funds and ETFs, whereas it can be tough to sell individual bonds for a fair price in a hurry.

#### [ “Cons” of Defined-Maturity Funds– In my mind, these are miniscule ]

Defined-maturity funds do have drawbacks. While individual bonds generally offer fixed semi-annual payments, the [defined-maturity] funds typically make fluctuating monthly distributions -- providing a less predictable income stream. And barring a default, individual bonds return principal to investors at maturity, while shareholders in defined-maturity funds aren't *guaranteed* a specific payout at the maturity date. But these funds tend to place proceeds from maturing bonds

into cash-like instruments as they approach their liquidation date. That means investors are likely to see a fairly stable net asset value as they await their final payout.”

#### Families of Defined Maturity Funds

#1 -- ETFs in the defined-maturity category include a family of **iShares** S&P AMT-Free **Municipal** Series funds, with maturity dates each year from 2012 through 2017. The iShares 2013 S&P AMT-Free Municipal Series ETF (symbol MUAB), for example, recently traded for just over \$50 a share and held over 200 bonds. There are also MUAC, MUAD, MUAE, MUAJ, and MUAG which ‘matures’ in 2018.

#2 – **iShares** ETFs that hold **Corporate** bond pools. There are two sets: one set holds bonds from companies regardless of industry; and the other set excludes bonds issues by financial institutions. For 2018, we have the year 2018 we have IBDB and IBCC.

#3 -- **Guggenheim** BulletShares **Corporate** Bond funds, with maturity dates each year from 2012 through 2020.

#4 -- **Fidelity** Investments last year launched a lineup of defined-maturity **Municipal** Income mutual funds, with maturity dates in 2015, 2017, 2019 and 2021.

#5 - **Guggenheim** BulletShares 2018 High Yield (corporate) funds. For example, BSJI for 2018.

Each of the fund families has a set of funds or ETFs for each year, going out 5, 7, or 10 years. I’ve picked out the fund from each family that is closest to a 7-year defined-maturity. I’m going to look at those picks in the order of their yields, yields, from lowest to highest.

**Remember: If you are going to invest in muni-bonds, you want to do it with money from your *taxable* account, not from your IRA accounts.**

**MUAG** = iShares 2018 [ 5-year ] S&P AMT-Free Municipal Bond ETF

Yields 1.15% tax-free, equivalent to  $1.15/(1-.30)$  = a taxable-equivalent yield of **1.64%**.

Holdings are rated AA. Duration = 4.6 years. Expenses are 0.3%

**IBCD** = iShares 2020 [ 7-year ] Corporate Ex-Financials Term ETF

This ETF has no financial bonds in it; i.e. no loans to banks, insurance firms, brokerages.

Yield = **2.50%**.

Holdings are rated A. Duration = 5.4 years. Started in 4/13, so expense history yet.

Note: IBDC = iShares’ new 2020 Corporate Term ETF, **with** financial bonds in it, came out on July 9, 2013, and is so new that it does not yet have an historical yield, turnover percentage, or expense history.

**BSCK** = Guggenheim BulletShares 2020 [ 7-year ] Corporate Bond ETF

Yield = **2.86%**

Holdings are rated A+. Duration = 6.0 years. Expenses are 0.24%.

**FOCFX** = Fidelity Municipal Income 2021 [ 8-year ] Mutual Fund

Yields 2.54% tax-free, equivalent to  $2.54/0.70$  = a taxable-equivalent yield of **3.63%**.

Holdings are rated AA. Duration = 6.7 years. Portfolio Turnover 14%. Expenses 0.40%.

Hold G.O. bonds = 24%; Utils, water, & sewer = 18%.

**BSJI = Guggenheim BulletShares 2018 [ 5-year ] High Yield ETF**

Yield = **5.09%** (**4.95%** Using Guggenheim's website calculator & 7/17 mkt. price of \$26.40).  
Holdings are rated B. Duration = 3.2 years. Expenses are 0.24%.

What can we say about these various Defined-maturity fund offerings?

Well, except for BSJI, their yields seem just too low to provide us retirees with a decent monthly income.

On the other hand, rates up in the 3% range for 7-year AA's are good rates, since you have to go out to 10-years just to get 2.6% on a Treasury bond.

The BSJI fund is holding bonds rated, on average, B. I personally think the 4.95%-5.09% may be worth the Single-B default risk, because the B is ameliorated by the likelihood that our economy will be strong over the next 5 years.

***On the other hand, I can buy utility Southern Company's (SO) common stock and get a common stock dividend yield of 4.4%!***

**ADDITIONAL MUNI- BOND RISKS**

Also, I must tell you that Municipal bonds are very difficult for rating agencies to rate. Their balance sheets are not as understandable as corporate balance sheets are. I do not have as much faith in municipally bond ratings.

*General obligation* municipal ("muni") bonds have the best credit, because they are backed by the *general* taxing power of the agency that issues them. And muni bonds issued by *states* are better than bonds issued by cities or special-purpose agencies, because states have more ways to tax citizens.

You can find out about what kinds of muni bonds a fund holds by going to the Morningstar.com website; although for full data you need to subscribe.

**EXCHANGE-TRADED BONDS**

If we have time, we can look at one of the Exchange-Traded Bonds out there on the market.

Like all bonds, these ETBs have a fixed maturity, but they are very long-term. Like 30, 40, even 60 years. This makes them a lot like preferred stocks, which are typically "perpetual" – they never mature.

But if you are happy with the interest rate you are getting, and if you plan on leaving money to your heirs instead of spending it all yourself, these bonds might make sense.

You need to hold them in an IRA, because their quarterly interest payments are not subject to the 15% tax rate that stock dividends enjoy; they are taxed at your ordinary income rate.



You do have to watch out for the possibility that the bond is **called** at an earlier date. These bonds will be called at their “par” value, which is usually \$25, so take care not to pay too much over par, if anything, for these bonds.

The best place to find out about them (and about preferred stocks, for that matter), is at [www.quantumonline.com](http://www.quantumonline.com).

Quantumonline has a list of ALL the exchange-tradeable bonds -- about 200 issues in all.

DUKH = Duke Energy 5.125% Junior Subordinated Debentures due 1/15/73.  
Callable 1/15/2018. Rated Baa3/BBB-. Par Value = \$25.

Duke is the largest utility in the U.S., and it is a **regulated** utility.

The bond’s ratings are low, reflecting the junior status of these bonds, but I do not think Duke’s state regulators would EVER let it default on any its debt, because it would make THEM – the regulators -- look bad. The regulators would allow Duke to raise electricity prices instead. The Rating Agencies never give cognizance to this “regulator pride” factor, but I believe in it personally, given my experience (which is now, of course, 15 years out-of-date).

On 7/15/13, You could buy this DUKH bond for \$23.89.

Fidelity’s YTM calculator says you would earn  
**5.37%** Yield-To-Maturity; and  
**6.27%** Yield-To-Call.

***On the other hand, you can buy utility Southern Company’s (SO) common stock and get a common stock dividend yield of 4.4%!***

SUPPLEMENTAL INFO: *Jim Jubak, writing in his “Jubak Picks” newsletter, 7/15/13”*

*There’s increasing reason to believe that the Treasury market has stabilized on the fundamentals—until the next panic when the Federal Reserve again begins to talk as if a decision to taper off its program of buying \$85 billion a month in Treasuries and mortgage-backed assets is just around the corner.*

*And if the Treasury market has stabilized, it means that the weakness in dividend stocks (calling it a sell off would be an overstatement) is at an end—for a while—too.*

*..... The big reason that bond buyers have started to see 10-year Treasury bonds as fundamentally attractive again—aside from their big recent drop in price and rise in yields—is the absence of any signs of inflation. Look around the globe—can’t find it. Can’t even find a scenario that might produce it relatively soon. At current economic growth rates, the global economy is awash in capacity whether it’s capacity for manufactured goods or production capacity for commodities. With China’s economy slowing that global overcapacity doesn’t look likely to go away quickly. (The one exception to this pattern of modest inflation is, perhaps, food commodities but even there the potential for a record harvest this year has pushed down near-term prices.)*

Real yield on the 10-year Treasury—that is the yield once you subtract current inflation—is 1.56 percentage points, the highest level since March 2011. As recently as November, real yields were negative.

This hasn't been a great first half for Treasuries and other bonds. Treasuries, according to the Bank of America Merrill Lynch bond index, lost 2.48% in the first half of 2013, the biggest loss since 2009

**But Wall Street now believes that bond prices have stabilized within a likely range for the 10-year Treasury of 2.4% to 2.8% for the rest of 2013.** High levels of bond market volatility and the uncertainty over when the Fed might begin The Taper argue that bonds yields aren't going back to former lows, however.

**What does this mean to you?**

**First, that it's reasonably safe to invest in bonds again**—though I'd protect my portfolio by buying individual bonds rather than a bond fund. Individual bonds mature so that even in a falling market for bonds, you get your original capital back (assuming that you didn't buy at a premium to par) when your bond matures. Bond funds never mature; their portfolios just keep rolling over as holdings mature or are sold. If the bond market has indeed stabilized, then you might even be looking at outperformance from higher risk categories. But I'm not a bond guy and I couldn't begin to point you to specific parts of the higher-risk market.

**Second, that if the bond market has stabilized, it might mean less money is available to move from bonds to stocks.** It's not clear that the great rotation toward stocks and out of bonds was ever more than wishful thinking by equity guys, but more stability in the bond market does lower incentives to switch.

Third, this isn't to say that stability in the bond market is a net minus for stocks. Anything that lowers investor fear helps all asset prices since the first step in a time of perceived crisis isn't into a different asset class but into cash and onto the sidelines. Less scary volatility in bonds reduces the impulse to sit the whole thing—bonds and stocks—out.

Fourth, dividend stocks didn't take anywhere near the punishment that bonds received, but they did inch back a bit and I've sensed a growing reluctance to invest in the category with every twitch of the bond market sell off. **A dividend stock ETF like the extremely low-cost Vanguard High Dividend Yield Index ETF (VYM), dropped [only] 0.13% in June.** That's only big news in the context of the fund's one-year return of 25.98%. Other dividend ETFs show the same pattern—the WisdomTree Total Dividend ETF (DTD), for example, was down 0.59% in June. Some individual dividend stocks show what I'd call a similar trend—General Electric was down 0.56% in June—although it's hard to separate industry factors from dividend effects.

**The place I might look for the biggest boost from a return to normal by the term premium is in the master limited partnership space.** These partnerships depend on cheap short-term money—and the stability of short-term rates seems to be secure for an extended time according to the Federal Reserve—and a belief that long-term real yields will be well above those short-term rates.

**The return of a positive term premium suggests that belief in those two conditions has returned to the market.** I'll try to make a few specific MLP suggestions in the next day or two. In the meantime you might take a look at the MLPs in my Dividend Income portfolio <http://jubakpicks.com/jubak-dividend-income-portfolio/>

Full disclosure: I don't own shares of any of the companies mentioned in this post in my personal portfolio. When in 2010 I started the mutual fund I manage, Jubak Global Equity Fund <http://jubakfund.com/>, I liquidated all my individual stock holdings and put the money into the fund. The fund did not own shares of any stock mentioned in this post as of the end of March. For a full list of the stocks in the fund as of the end of March see the fund's portfolio at <http://jubakfund.com/about-the-fund/holdings/>