SEARCHING FOR STABILITY

in a Storm of Uncertainty

Why are your fixed income investments at risk?

If you are one of the 10,000 baby boomers retiring each day over the next several years, protecting the value of your portfolio has seldom been more vital. Ironically, however, conservative assets managed with a traditional buy-and-hold strategy rarely looked so risky.

Gone are the days when this generation could afford the time to ride portfolio values down with steady hands knowing they had decades in front of them to make up for significant losses. Fearing that the economic weakness in the U.S. is not entirely over, investment in U.S. Government bonds has grown substantially, driving interest rates down to record lows. Many investors concerned with the safety of their capital remain weary of 2 common risks associated with fixed income investments: interest rates and inflation.

Interest Rate Risk: Conventional knowledge tells us that bond prices fall when interest rates rise, and they fall fast. A simple rule of thumb: a 1% rise in interest rates in a 30-year, 5% U.S. government bond may result in a 14% decrease in the bond's value. A 2% rise in rates may result in a 25% decrease in the bond's value. The math is simple, but the results can be devastating.

Inflation Risk: Investors often say they don't care what happens to their bond price since the coupon amount received remains the same and the principal is guaranteed upon maturity. This mindset does not factor in the significant purchasing power erosion over the life of the bond. Whether we like it or not, inflation will always make sure that those anticipated coupon payments and the returned principal will be increasingly less valuable to us with each passing year.

Opportunity Does Exist

Not all bonds are created equal. The misconception, and hence the investment opportunity, in fixed income is resolved by the difference between High Yield bonds and U.S. Government bonds.

U.S. Government Bonds: As previously stated, U.S. Government bonds are driven by movements in interest rates: If interest rates rise, then U.S. Governments bond prices fall, and vice-versa.

High Yield Bonds: High Yield bonds, however, are driven by the credit markets. High Yield bond prices rise as the companies that issue them become more profitable, i.e. interest payments are more likely to be met when their issuing companies are making more money. High Yield bonds tend to move with the stock market, albeit slower. BTS seeks to preserve capital, minimize volatility, and enhance returns by capitalizing on the different behaviors of these 2 bond sectors.

A Tactical Alternative

Since 1979, wealth advisors have used BTS Asset Management to manage conservative assets for retirees, or any client with a conservative portion in their portfolio.

Using the same disciplined approach designed in 1981, the BTS Bond Asset Allocation (BAA) Portfolio uses a **Tactical Strategy** in bonds as an alternative to the buy-and-hold strategy described earlier. Using 30 years of experience, BAA aims to deliver equity-like returns with bond-like risk by toggling between High Yield bond funds, U.S. Government bond funds, and money market. Assets are thus placed in the bond sector that BTS believes has the potential to deliver the highest returns using model-driven analysis.

Managing through 4 recessions and 6 rising rate markets, BTS' investment approach combines our proprietary technology, our focus on preservation of capital, and our need to minimize downside risk with the goal of delivering performance in all market environments.

420 Bedford Street, Suite 340 • Lexington, Massachusetts 02420-9178 • 800.343.3040 • www.btsmanagement.com

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