Bonds:
The Safe Haven Asset Class?

Depends On How You Own Them

MacroView

Investment Management LLC

Two Important Reasons To Own Bonds

#1. Preserve capital - yet earn a return.

- This is money that you do not want to lose.

#2. Complement the riskier portion of a portfolio.

- Provide safety in periods of equity market stress.

However, not all bonds meet these goals.

1: Capital Preservation: Use the Proper Bond Vehicle

THERE ARE TWO WAYS TO OWN BONDS.

Individual Bonds

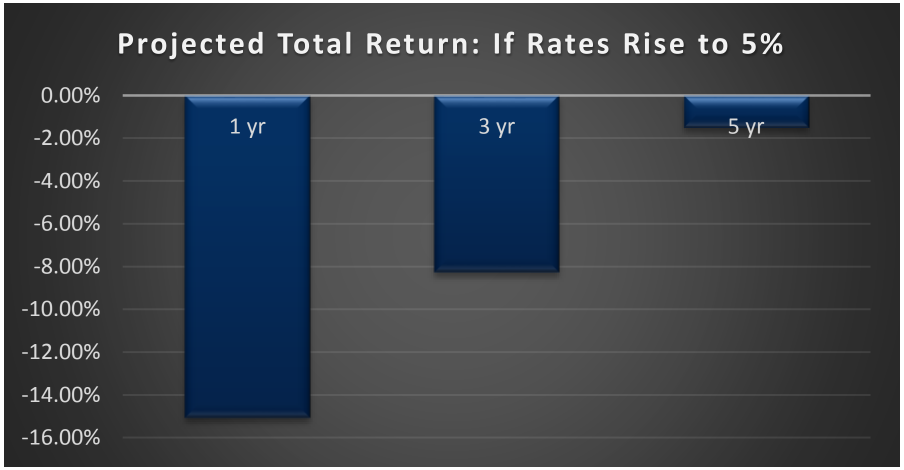
- Certainty because of its fixed maturity.
- If rates rise, in the short run individual bonds will lose value; however, individual bonds will recover principal over time due to maturity date.
- Allow portfolio customization to clients' needs and transparency of holdings.
- The yield at purchase does not change if rates rise. Allows one to calculate to the penny how much is earned on the bond if held to maturity.
- Important for income planning and allocation decisions.

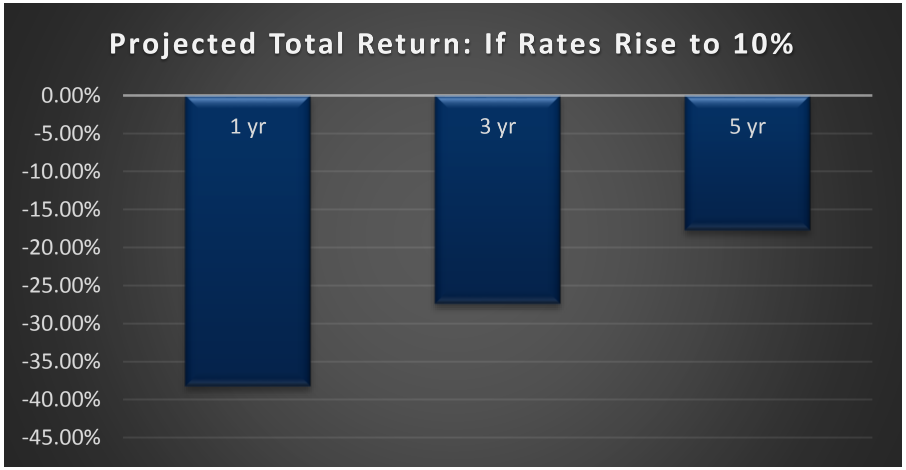
Bond Funds/ETFs

- No fixed maturity date – no certainty of return of principal.
- If interest rates rise, there is **substantial** risks to principal
- No ability to add value – may be forced to track an index.
- May be forced to sell at a loss due to fund rules.
- No transparency or customization.

ONLY INDIVIDUAL BONDS CAN BE SPECIFICALLY USED TO PRESERVE CAPITAL OVER TIME

Projected Performance For Intermediate Bond ETFs (5-10 Years) If Interest Rates Rise Significantly*





Depending upon the length of time it takes for intermediate rates to rise to 5%, the projected total return for intermediate bond funds are:

1 year total return: -15.06%
3 year total return: -8.25%
5 year total return: -1.48%

Depending upon the length of time it takes for intermediate rates to rise to 10%, the projected total return for intermediate bond funds are:

1 year total return: -38.22%
3 year total return: -27.35%
5 year total return: -17.71%

Conclusion: Bond funds/ETFs are very much at risk if interest rates rise significantly

Assumes:

- Maturity of 7.5 years
- Starting yield of 2.21% for 7.5 year bond
- Constant rise in rates
- Each year, original 7.5 year bond is sold, and new 7.5 year bond is purchased at prevailing yield

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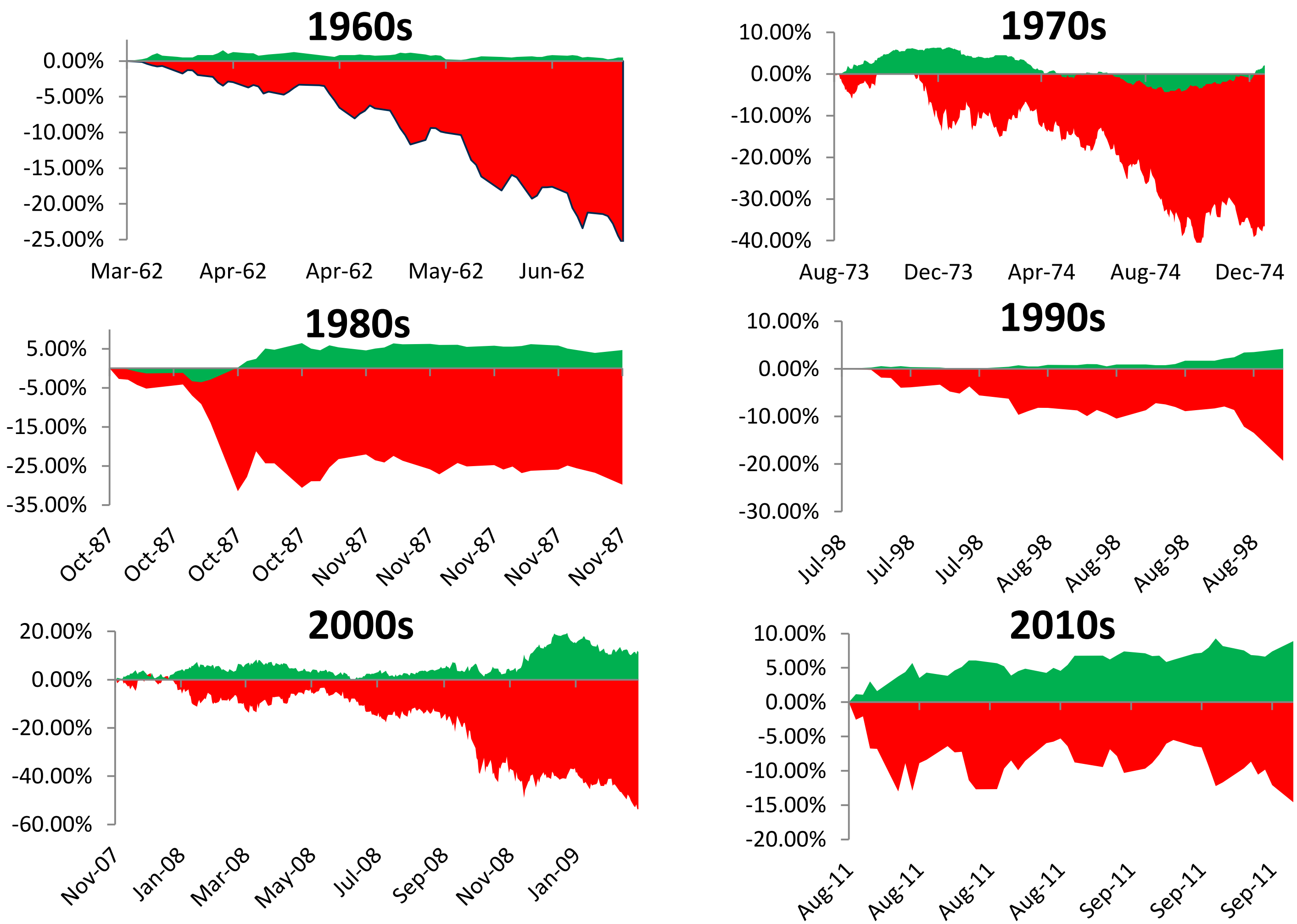
#2 Bonds Provide Safety In Periods Of Equity Market Stress

In each of the last 6 decades, bonds have been used to provide safety in periods of equity market stress

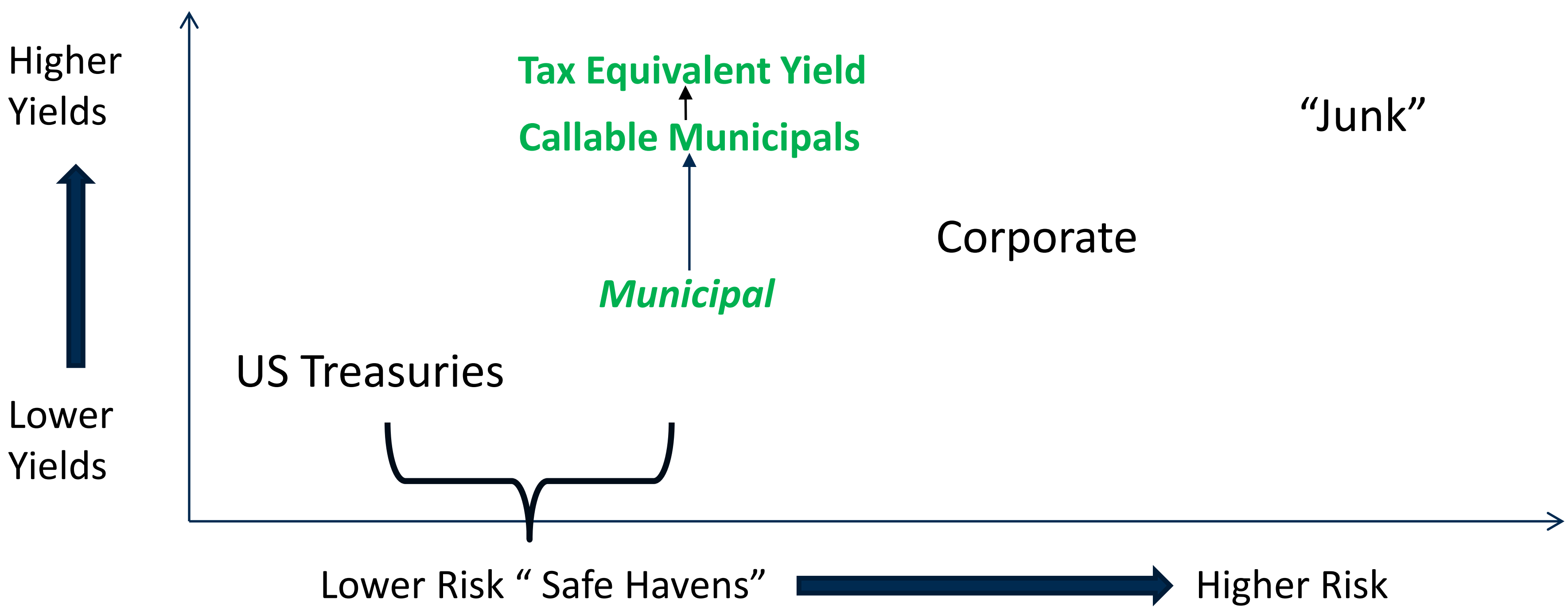


- S&P 500
- 10 Year Bonds

Average S&P 500 Return During These Periods: **-30%**

Average 10 Year Bond Return During These Periods: **≈+5%**

Different Types of Bonds



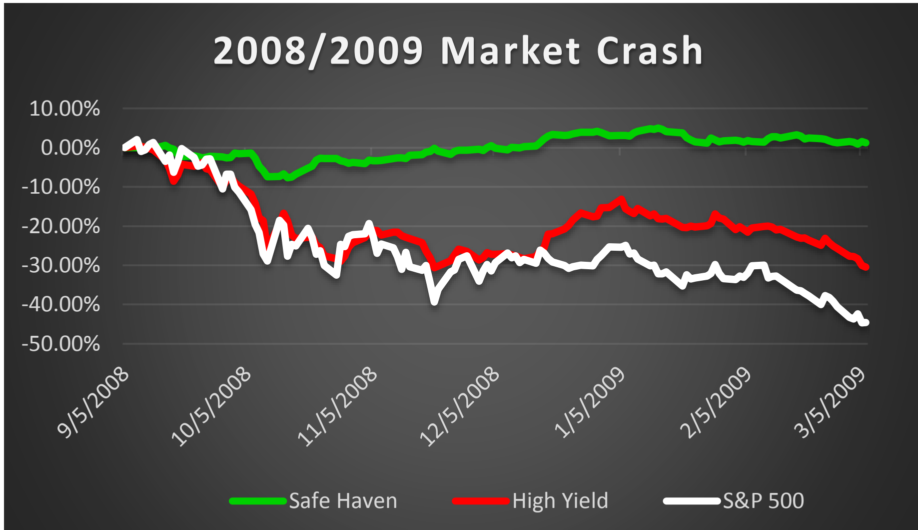
Our Choice: Municipal Bonds

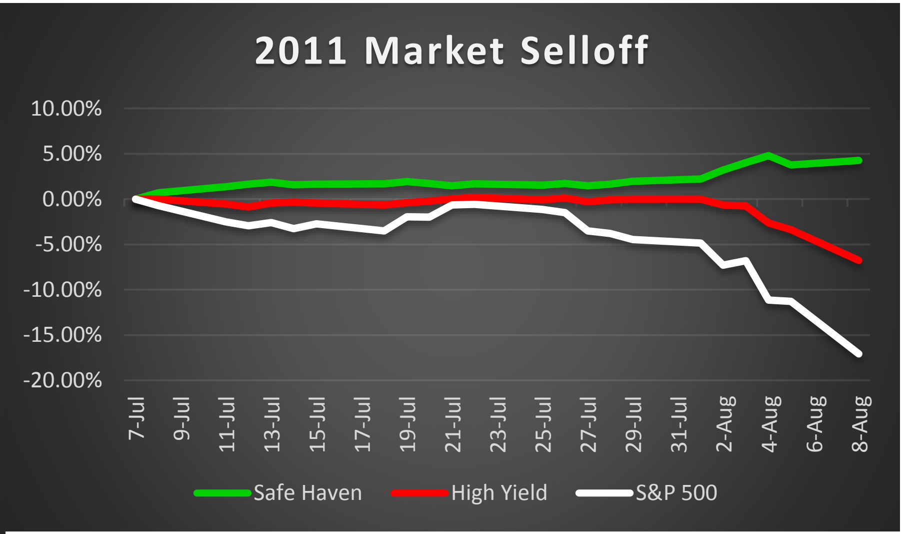
Not All Bonds Provide This Safety

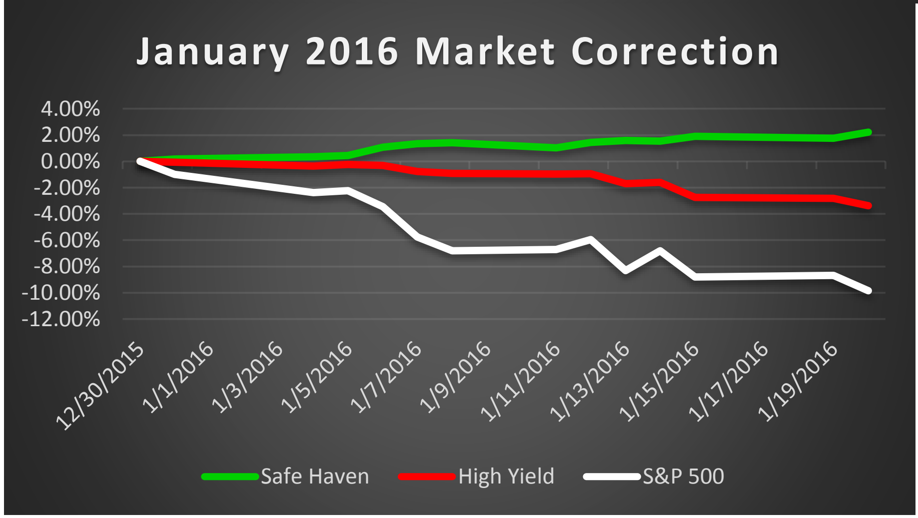
Type of Bond	Bond ETF Ticker	Yield
High Yield Junk	JNK	6.01%
Emerging Market Debt	EMB	4.73%
High Yield Corporate Debt	HYG	5.23%
Senior Loan Debt –(Bank Loans)	BKLN	4.48%

- There are bonds that offer higher yields in the current low interest rate environment.
- Investors require a higher yield because the bonds are inherently more risky, and often trade like equities.

Not All Bonds Provide This Safety







Shown here are periods of equity market stress. In all 3 periods, safe haven bonds (municipals and treasuries) all increased in value. The higher yielding bonds shown on the previous page all traded more like equities due to their riskier nature.

Summary

- In today's low interest rate environment, both the *vehicle* and *type of bond* you own is more important than ever.

- We strongly recommend that bond investors own *individual municipal bonds* due to their favorable risk-reward profile and their ability to preserve capital over time, specifically during periods of equity market stress.

- Owning bonds in other forms could lead to unrecoverable losses in the years ahead.