

Are There Hidden Risks In Your Bond Portfolio?

HIGHLIGHTS

- Complacency is seemingly everywhere
- The financial industry undergoes a wave of regulatory changes
- Now is an ideal time to look at your bond portfolios with a pair of fresh eyes

Since the depths of the financial crisis, municipal sector and credit spreads have tightened so sharply that investors are increasingly venturing into lower-quality issues in pursuit of higher yields. [According to Bloomberg](#), the riskiest state and local governments have been chief beneficiaries of the Federal Reserve's prolonged zero-interest-rate-policy, with borrowing costs hitting generational lows. Complacency is seemingly everywhere.



All this comes as the financial industry undergoes a wave of regulatory changes. [FINRA Rule 2111](#), which went into effect in July, ratchets up financial advisors' responsibility for determining whether investments and strategies are suitable for their clients. Multiply the number of clients you have by their individual bond and bond-fund positions and you can appreciate the difficulty, time and expense of knowing each fixed-income portfolio on a granular, "buy, sell or hold" level. Consider:

- "How much do you trust your high-yield municipal-bond fund manager"? [asked the Wall Street Journal](#). "Investors in funds with large positions in unrated munis—which often offer higher yields—should realize that they are putting great faith in the management team to evaluate those issues, experts say."
- In May, [Bloomberg reported](#) that some major mutual fund companies' "state-specific funds have no restrictions on the percentage of investment-grade debt issued by Puerto Rico or other U.S. territories. The funds can invest as much as 25% of assets in below-investment-grade securities."
- "Cracks are starting to appear in the municipal bond market," [warned Money Magazine](#) in September. "If you're investing for income, it's time to pay attention."

At Caprin, we think now is an ideal time to look at your bond portfolios with a pair of fresh eyes. Let us help you match your clients with the solutions most appropriate for their true risk tolerances.

As Morningstar [told](#) the *Wall Street Journal*: "There are few other places in the bond world where research matters more You've got to have a good, broad team that knows different sectors and can do the research, and a firm that has a really good reputation with credit."

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.