Manager Commentary

September 2014 – Tactical Yield Strategy

After rising in August, accounts declined by around 2% in September at Trust Company of America as most markets fell on fear of higher rates. The Russell dropped 6%. We reduced risk and raised liquidity per our capital preservation mandate. Some dividends earned in Q3 will arrive in accounts in October.

September/October corrections typically are followed by Q4 rallies. We will watch for this opportunity. Investors should consider the upside potential of convertible bonds versus any other bond type. They typically are the best performing bond in a rising rate environment.(1)

Rates triggered a strong dollar which slammed oil prices giving consumers a "tax break" in gas prices. U.S. consumer and small business confidence soared.(2) Record crop harvests may boost this trend. A very sloppy transition from markets supported by zero rates to one supported by rising earnings may have begun. In addition, the lack of volatility that has hampered tactical managers may be ending as U.S. QE fades.

High Yield bonds were previously overpriced, recently trading at 105 to par. They are correcting in an orderly fashion. Importantly, debt coverage ratios are still improving unlike 2007.(3) High Yields will find price support at some point. This may well be the bellwether signaling a resumption in the equity market rally when they bounce.

If the sell-off continues, we will get more and more defensive. The Rydex Inverse High Yield position is an example.

Porter Landreth
Asset One

(1) Morgan Stanley 6/13
(2) Conference Board and NFIB
(3) Tom Soviero/Fidelity 9/22/2014