

Unique Approach to Municipal Bond Investing

Your “Staying Rich” money, not your “Getting Rich” money

“Peace of mind and predictability come at a cost, risk and volatility are totally free.”

Most people who own municipal bonds purchase them through a bank, their Financial Advisor, a company like Vanguard or they buy a bond fund. These bonds are priced off a scale sheet and we call these plain or vanilla bonds.

Our message to a prospective client, “If I can produce a 25%-35% higher net yield to you, without extending maturities or downgrading in quality, would you like to hear what I have to say? For example, when we produce an additional 2% or 200 basis points return in your portfolio, which is equal to \$20,000 net to you on \$1 million.”

We fly below the radar screen because large muni bond funds like Blackrock, Nuveen and Vanguard are multi-billion dollars in size and are required to purchase large blocks of \$5 million to \$20 million bonds to satisfy their appetite as bonds mature, are sold or called. We deal in smaller pieces of 100m bond minimums up to approximately \$4 million, and because there is a lack of knowledge or due diligence on the part of most dealers, we can purchase bonds for our clients at substantially reduced rates. The Puerto Rico PHA bonds maturing in 2014 with a 6% coupon is a good example.

I learned the muni bond business working for EF Hutton from 1977 to 1988. My best client taught me how to discover mispriced, misunderstood high quality bonds trading at a cheap or reduced price. I first learned about “story bonds” or “goodie bonds” in early 1970’s from dealers who would buy these bonds for themselves and their clients. However, they didn’t want anybody else to fully understand this strategy, so their explanations were always incomplete and vague.

I believe there is a SEA change transpiring on what investors feel comfortable owning after the most recent downdraft in the stock market and this dislocation has presented opportunities in fixed income as well. I have over 35 years experience in the municipal bond market and have created a dealer network to help me locate those bonds I have an appetite for. We buy story bonds, puts, zeroes, Pre-Re’s, ETM’s, kickers, sinking funds, GO’s and revenues.

Performance has been consistently good for many years. In most 5 or 10 year rolling periods, the # 1 and # 2 best performing asset class is either the stock market or municipal bond market.

Wall Street’s fixed income business, including the municipal bond sector, has recently changed dramatically as there are fewer trading desks; Bear Stearns, Lehman, Citibank, Merrill, JP Morgan, Morgan Stanley and Deutsche Bank used to each position and trade \$150-\$200 million daily, now each institution positions about \$10 million or less. The result is small shops now compete more easily and syndicates are more open. This dynamic is here to stay; the market and supply should be in our favor, and it appears taxes will be going up, not down.

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