

Index

- ABCP. *See* asset-backed commercial paper
 accommodations, 83–84
 policy, 31–32
 accumulating investors, 37–39
 active strategy, 47
 ADP Report, 98–99
 agency mortgages, 150–151
 aggressive strategy, 57–59
 alpha, 141–142
 analysis, portfolio, 59–69
 ARS. *See* auction-rate securities
 asset allocation, 71–79
 asset manager, 175
 asset-backed commercial paper, 18–20,
 130, 162–163
 auction-rate securities, 27
 August 2011 FOMC statement, 89–93

 Bank of America, 4
 Bank of England, 84
 bankruptcy, Lehman Brothers, 3–4
 BBA. *See* British Bankers Association
 Bear Stearns, 3–5, 180
 belly of the yield curve, 154
 Bernanke, Ben, 31–32, 81
 Black Monday, 15–16
 BOE. *See* Bank of England
 Bogle, John C., 15, 145
 bond ladder, 126. *See also* laddered bond
 strategy
 alternatives to, 147–150
 cash alternative strategies vs., 133–134
 concept, 126–128
 coupons and, 137–138
 goal, 129–131
 performance, 140–142
 bond supply, 138–140
 bonds, diversification of, 51–52
 break-even rate, 108–109, 149–150

 breaking the buck, 5–6
 British Bankers Association, 154
 British Petroleum, 43–44
 bubble, housing, 16–17
 Buffett, Warren, 71, 125, 159, 169, 177
 Bureau of Labor Statistics, 97
 buy-side transactions, 171–172

 calendar, new issue, 138–140
 capital appreciation, 38
 capital, preservation of, 131
 cash alternative strategies, laddered bond
 strategy vs., 133–134
 cash strategy, 55
 CD. *See* certificates of deposit
 central banks, deposits with, 84–86
 certificates of deposit, 162, 166–167
 CES. *See* current employment statistics
 Churchill, Winston, 29
 collateralized debt obligations, 18–20
 commercial paper, 162–163
 company fundamentals, 164–165
 complexity, of fixed income market,
 125–126
 confidence, 181–182
 conservative strategy, 54–56
 consumer price index, 104–109, 147
 consumption, as indicator, 109–110
 corporate bonds, 51
 as alternative to laddered bond strategy,
 151–153
 interest rates and, 152–153
 corporate floating-rate notes, 153
 correction pattern, 16–17
 corrective action, 167
 coupons, 151
 consistency of, 137–138
 laddered bond strategy and, 137–138
 resets, 157
 CPI. *See* consumer price index

- credit analysis
 - necessity for, 160–161
 - ongoing, 165
 - sovereign debt and, 161
 - staying ahead of competition and, 166–167
- credit environment, 165
- credit opinion, 61
- credit profiles, differences in companies, 164–165
- credit rating
 - changes to, 163–164
 - U.S., 8–9
- credit risk
 - portfolio construction and, 68–69
 - reducing, 62–63
- current employment statistics, 97
- data points, 72, 95–97
- dealer inquiries, 172
- debt ceiling, U.S., 8, 10–12
- debt rating
 - Treasury securities, 8–9
 - U.S., 7–8
- Deep Water Horizon, 43–44
- default risk, defined, 113
- details, importance of, 177–179
- direction, finding, 30–33
- disagreements, among traders, 181–182
- dislocation, 134, 178
- distributing investors, 38–40
- distributions, consistent, 131
- diversification, 44, 151–152
 - assessing, 61–62
- dollar, strength of U.S., 12–13
- Douglas, Michael, 30
- doves, 82
- downgrades, credit rating, 163–164
- duration, 132
- ECB Eurozone Liquidity Recourse to the Deposit Facility index, 85–86
- ECB. *See* European Central Bank
- economic climate index, 75
- economic indicators, 95–97
- economy, status of, 30–33
- efficiencies, 72, 142
- Enron, 5
- environmental impact, on liquidity, 135–136
- equity markets, Treasury bills and, 21–24
- euro, 10
- European Central Bank, 84
- European Union, 10
- executed price, 171–172
- executing the trade, 169–170
- Fannie Mae, 78–79
- FDIC. *See* Federal Deposit Insurance Corporation
- Fed chairman, as indicator, 110
- Federal Deposit Insurance Corporation, 166–167
- federal funds rate, 82–83
- Federal Home Loan Bank, 78–79
- Federal Open Market Committee, 31, 81, 147–148, 154–157
- FHLB. *See* Federal Home Loan Bank
- financial ratios, 164–165
- Fitch, 159–160
- fixed income market, complexity of, 125–126
- fixed income investor, short-term, 83
- flat yield curve, 120–121
- floating rate notes, 66–67
 - as alternative to laddered bond strategy, 153–156
 - interest rates and, 153–157
- FOMC statement
 - August 2011, 89–93
 - clues from, 88–89
- FOMC. *See* Federal Open Market Committee
- forecast, 131
- Franklin, Benjamin, 37
- Freddie Mac, 5, 78–79
- front end, 133
- fundamentals, of company, 164–165
- GDP. *See* gross domestic product
- Gekko, Gordon, 30
- global allocation, 76–79
- global disruption, possibility of, 10–12
- global gross domestic product, 76
- goals
 - analyzing portfolio for compliance, 59–69
 - bond ladder, 129–131
 - portfolio construction and, 51–59
- Goldman Sachs, 4

- government intervention, 162
 quantifying, 43–44
 government securities, 64–65
 government-insured market, 166–167
 Greece, 139–140
 greed, 30
 Greenspan, Alan, 3–4
 gross domestic product, 76, 109,
 163
 Gulf oil spill (2010), 43–44

 hawks, 82
 high-yield markets, 51
 housing bubble, 16–17

 income, receiving, 131
 indicators
 consumption as, 109–110
 Fed chairman as, 110
 inflation as, 103–109
 labor market as, 99
 temporary help as, 101
 yield curve as, 123–124
 inflation, 147–150
 as indicator, 103–109
 portfolio construction and, 67–68
 inquiries, dealer, 172
 instinct, 179–181
 interest rate environment, portfolio
 construction and, 65–66
 interest rate risk, defined, 113
 interest rates
 corporate bonds and, 152–153
 floating rate notes and, 153–157
 mortgage-backed securities and, 151
 yield curve and, 118–119
 inverted yield curve, 121–123
 investment banks, 4
 investment policy statement, 59
 investors
 accumulating, 37–39
 calming, 93
 distributing, 38–40
 risk-averse, 42–43
 risk-taking, 44–45

 Japan, 12
 JP Morgan, 3–5, 180

 Khrushchev, Nikita, 95

 labor market, as indicator, 99
 laddered bond strategy, 126
 alternatives to, 145
 cash alternative strategies vs., 133–134
 concept, 126–129
 corporate bonds as alternative to,
 151–153
 coupons and, 137–138
 credit analysis and, 161–163
 floating rate notes as alternative to,
 153–156
 goal, 129–131
 mortgage-backed securities as alternative
 to, 150–151
 performance of, 140–142
 Treasury Inflation-Protected Securities as
 alternatives to, 147–150
 LDI. *See* liability driven investments
 Lehman Brothers, 3–5, 135, 153, 157, 162,
 180–181
 liability driven investments, 132
 LIBOR. *See* London Interbank Offered
 Rate
 liquidity, 24, 134–136, 152, 173
 environment impact on, 135–136
 London Interbank Offered Rate, 153–157
 defined, 154
 long end, yield curve, 131–133
 Long-Term Refinancing Operations, 85
 low turnover, 141–142
 low turnover strategy
 alternatives to, 145
 credit analysis and, 161–163
 low-yield environment, 145–146
 LTRO. *See* Long-Term Refinancing
 Operations
 Lynch, Peter, 111

 market volatility, 132
 MBS. *See* mortgage-backed security
 measurement, of performance, 140–142
 Merrill Lynch, 4
 Merrill Lynch Option Volatility Estimate
 (MOVE), 42–43
 model, customized, 73–74
 moderate strategy, 56–57
 monetary policy, defined, 81
 money market, 5–6, 18–20, 116–118,
 135
 money market strategy, 55

- money
 fear of losing, 42
 loss of, 45
 Moody's, 159–160
 mortgage-backed securities
 as alternative to laddered bond strategy,
 150–151
 interest rates and, 151
 mortgages, 150–151
 MOVE. *See* Merrill Lynch Option Volatility
 Estimate (MOVE)
 municipal bonds, 25–27
 municipal market, 172
- new issue calendar, 138–140
 nonagency mortgages, 150–151
 nonfarm payroll report, 98–103
- Operation Twist, 84, 156–157
- passive strategy, credit analysis and,
 161–163
 pattern, correction, 16–17
 payroll, 97
 PCE. *See* Personal Consumption
 Expenditure Core Price index
 performance
 of bond ladder, 140–142
 measurement, 140–142
 Personal Consumption Expenditure Core
 Price index (PCE), 107–109
 placing the trade, 169–170
 portfolio analysis, 59–69
 portfolio construction
 credit risk and, 68–69
 goals and, 51–59
 inflation and, 67–68
 interest rate environment and, 65–66
 risk and, 50–51
 portfolio turnover, 131
 portfolio volatility, 132
 PPI. *See* producer price index
 prepayment risk, 151
 preservation of capital, 131
 price, execution, 171–172
 price discovery, 136
 producer price index, 103–109
- QE. *See* quantitative easing
 QE3, 86–87, 92
 quantitative easing, 84
- rating agencies, 159–160
 recession, 146, 156–157, 182–183
 recovery, 182–183
 reinvestment risk, defined, 113
 rescue of U.S. economy, 31–32
 Reserve Fund, 5–6
 residential mortgage-backed securities, 165
 reward, risk versus, 53–54
 risk, 40–41, 65–69
 defining, 40
 portfolio construction and, 50–51
 reducing, 77–78
 reward versus, 53–54
 systemic, 76
 risk characteristics, 42
 risk-averse investors, 42–43
 risk-taking investors, 44–45
 RMBS. *See* residential mortgage-backed
 securities
- S&P. *See* Standard and Poor's
 sales coverage, 175
 sell-side transactions, 171–172
 sentiment index, 73–74
 short-term fixed income investor, 83
 short-term strategies, varieties of, 133–134
 SIV. *See* structured investment vehicles
 size of trade, 171–172
 Soros, George, 49
 sovereign debt, credit analysis and, 161
 spread, 115–116
 stable principal, goal of, 55
 Standard and Poor's, 159–160
 steep yield curve, 119–120
 strategy, 125
 active, 47
 aggressive, 57–59
 conservative, 54–56
 credit analysis and, 161–163
 defining, 45–47
 moderate, 56–57
 short-term, 133–134
 success, 142–143
 structured investment vehicles, 130
 supply of bonds, 138–140
 systemic risk, reducing, 76
- temporary help, as indicator, 101
 time horizon, 44–45
 TIPS. *See* Treasury Inflation-Protected
 Securities

- trade, executing, 169–170
- trade, size, 171–172
- transaction ease, 173–175
- transactions, price execution, 171–172
- transparency, 72, 172
- Treasury bills, 20–24
 - equity markets and, 21–24
- Treasury default, 12–13
- Treasury Inflation-Protected Securities (TIPS), 56, 106, 147–150
 - as alternative to laddered bond strategy, 147–150
- Treasury securities, debt rating, 8–9
- turnover ratio, 131, 133–134
- turnover, low, 141–142
- U.S. credit rating, 8–9
- U.S. debt ceiling, 8
 - raising, 10–12
- U.S. debt rating, 7–8
- U.S. dollar, strength of, 12–13
- U.S. economy, rescue of, 31–32
- U.S. Treasury default, 12–13
- underwriter, 173
- upgrades, credit rating, 163–164
- variable-rate demand obligations, 26–27
- visible supply, 138–140
- VIX index, yen and, 10–11
- volatility, 129–130, 132, 153
- VRDO. *See* variable-rate demand obligations
- Welch, Jack, 7
- WorldCom, 5
- wrapper, 25–27
 - wrapper, as liability, 25–26
- yen, VIX index and, 10–11
- yield curve, 113–114
 - belly, 134
 - flat, 120–121
 - as indicator, 123–124
 - interest rates and, 118–119
 - inverted, 121–123
 - long end, 131–133
 - steep, 119–120
 - Treasury bills, 20–24
- zero interest rate policy, 155

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>