

Contents

Preface	xi
Acknowledgments	xiii
PART ONE	
The Investing Environment	1
CHAPTER 1	
Expect the Unexpected	3
The Model Has Changed	4
Lessons Learned	4
From Bad to Worse	5
CHAPTER 2	
Navigating through Troubled Water	7
Debt Ceiling	8
Triple A: Lost, but Not Forgotten	8
Possible, but Not Probable, Consequences	9
Warning Signs	12
CHAPTER 3	
Lessons Learned	15
Patterns Emerge	16
Money Markets	18
Treasury Bills, the Favored Asset Class	20
Municipals Felt the Pain as Well	25
Auction-Rate Markets Were Hit Hard	27
CHAPTER 4	
Direction in a Sometimes Directionless Market	29
Finding Direction	30

PART TWO	
The Fixed Income Investor	35
CHAPTER 5	37
Define the End Investor	
Risk	40
Risk-Averse Investor	42
A Problematic Trade?	43
Risk-Taking Investor	44
Define Your Strategy	45
Active Strategy	47
CHAPTER 6	49
Portfolio Construction	
Factor 1: Defining Your Risk	50
Factor 2: Aligning Goals	51
Conservative Strategy	54
Moderate Strategy	56
More Aggressive Strategy	56
Factor 3: Portfolio Analysis	59
Reduction of Credit Risk	62
Government Securities	64
Risks to Consider	65
Bottom Line	69
CHAPTER 7	71
Asset Allocation	
The Road Map	72
Going Global	76
CHAPTER 8	81
The Federal Reserve and Central Banks	
Hawks and Doves	82
The Fed Funds Rate	82
A Short-Term Fixed Income Investor	83
Hooked on Accommodation	83
Deposits with Central Banks	84
What about the United States?	86
FOMC: Look for Clues from the Fed Statement	88
What to Look For from the Fed . . . Clues?	88
FOMC Statement: August 2011	89

<i>Contents</i>	ix
QE or Not QE	92
Calming Statements for Investors	93
CHAPTER 9	
The Economy and the Markets	95
The Payroll Picture: The Backbone to the Economy	97
Bureau of Labor Statistics Website	97
Inflation: A Fixed Income Investor's Enemy	103
Consumption: America's Fuel	109
The Federal Chairman: The Wizard Himself	110
CHAPTER 10	
The Yield Curve	111
The Spread	115
The Money Market Arena	116
The Direction of Rates	118
A Steep Yield Curve	119
A Flat Yield Curve	120
An Inverted Yield Curve	121
Listen to the Curve	123
CHAPTER 11	
The Ladder and Why You Need One	125
How It Works	126
The Concept	126
The Goal	129
The Long End Poses Challenges	131
The Front End Is Technical	133
Varieties of Short-Term Strategies	133
The Sweet Spot	134
Liquidity	134
Consistent Coupons	137
Why Is Supply Important?	138
Performance and How to Measure It	140
Low-Turnover Dilemma	141
Success of a Strategy	142
CHAPTER 12	
Alternatives to a Traditional Ladder Strategy	145
TIPS: The Other Treasury	147

Break-Even Opportunity	148
Consider MBS Pools of Mortgages	150
Consider Corporate Bonds	151
Floating-Rate Notes	153
What Is LIBOR?	154
A Deeper Look at LIBOR	154
The Bottoming Process	156
CHAPTER 13	
Credit Analysis	159
The Agency	159
Credit Analysis: Necessary, Not Optional	160
Credit for a Passive Strategy	161
After the Initial Approval	163
Not All Bonds Are Equal	164
Stay Ahead of the Herd	166
CHAPTER 14	
The Four Pillars of Trade Execution	169
The First Pillar: Executed Price	171
The Second Pillar: Dealer Inquiries	173
The Third Pillar: Liquidity	174
The Fourth Pillar: Ease of Transaction	174
CHAPTER 15	
There Are No Roadblocks, Just Detours	177
Know What You Own	177
Banking Sector	178
Go with Your Gut!	179
Don't Take It Personally	181
Trapped in Purgatory	182
Index	185