



The Polar Letter

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“The only bull market is in government buffoonery and chicanery”

**FOX Business News Commentator
(identify unknown) 6-1-10**

NOTES ON FIXED INCOME INVESTING

A couple of decades ago we wrote a letter entitled “Yield Reaching.” By this, we meant the temptation of taking increased risk in an attempt to increase or preserve percentage yield in a fixed income portfolio. Naturally, two decades ago fixed income investments in general had much higher yields than is the case today, and indeed in those days the risk element in fixed income investing was significantly less than it is in our view these days.

Recently, Bloomberg News carried an article, which suggested that some institutional money managers (read fixed income fund managers) believe that the worst corporate credit markets in nearly two years represents an opportunity to acquire bargains. The article sites “U.S. corporate profits rose thirty one percent in the first quarter (from the comparable quarter a year earlier), the largest gain since 1984. We do not doubt this statistic, but ask how much stimulus money did it take to produce this statistic?

We believe that the fixed income market in virtually all sectors has become just as volatile and with risks at least comparable to the equity markets. We realize that for those living on the return of fixed income investments, this environment is painful to say the least. We encourage our readers to consider fixed income investments from the standpoint of preservation of capital rather than from a yield standpoint.

Please reread our letters dated March and April of 2009, which comment upon fixed income and the municipal markets (and insured municipal issues). That was 2009 and then, talk of municipal default and bankruptcy was sparse, today it is rampant.

Many governments have survived events of the past couple of years by printing money; please remember that states, cities, counties, and corporations have no power to print money.

Michael C. Jordan
President

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Broker-Dealer / Investment Advisory

Home Office: Thief River Falls MN 56701 218.-681.7344 * 218.681.1329 [fax]

www.polarinvest1.com

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