



# The Polar Letter

July 2015

## LOOK VERY CLOSELY AT YOUR BOND PORTFOLIO

“WE HAVE NEVER BEEN IN A ZERO INTEREST RATE ENVIRONMENT FOR YEARS – THIS IS LIKE ALICE IN WONDERLAND.”

Art Cashin UBS Director of NYSE Floor Operations  
May 19, 2015

---

Please consider that the markets have never experienced such a prolonged period of artificially suppressed interest rates. We believe this environment will have dire consequences for investors of all stripes. After all, rising rates will, in all probability, negatively impact equity markets and most definitely negatively impact debt markets. In the present environment, we believe one of the most risky investment classes to be the municipal bonds of many issuers.

The median return assumption utilized by U.S. municipal pension fund managers is a staggering 7.75%! This assumption and municipal pension plan contribution shortfalls, in many jurisdictions, have created substantial unfunded pension plan liabilities. Although relatively irrelevant, it is interesting to note that British law caps the assumed rate of return at 3.5%. Rising rates will decrease the values of present pension plan assets; decrease the values of outstanding municipal securities, and increase municipal borrowing costs creating further financial pressure on many municipalities, which already have substantially underfunded public pensions. Because of these shortfalls, there are numerous examples of municipal pension managers turning to various illiquid “private equity vehicles” to boost returns.

Illinois based Allstate Insurance is divesting itself of the state’s municipal bonds. When asked for an explanation the insurer’s CEO asked, “If you don’t like the income statement, the balance sheet, or the governance, why would you loan them money?”

Michael C. Jordan  
President

Please visit [Polarinvest1.com](http://Polarinvest1.com) – [President’s Corner](#) for prior letters.  
The firm’s senior principal, Michael Jordan has over forty years of industry experience.

**Polar Investment Counsel, Inc.**  
Member: FINRA, NFA, MSRB, SIPC  
Broker Dealer Home Office: Thief River Falls MN 56701  
218.-681.7344 \* 218.681.1329 [fax]  
[www.polarinvest1.com](http://www.polarinvest1.com)

The views expressed above are those of Michael C. Jordan and not those of PICI nor necessarily those of PICI’s independent contractors, brokers or advisors.  
[Click here to OPT OUT of future publication](#)