

# Junk bonds aren't necessarily junk, but they are risky

I am hearing a lot of talk about junk bonds. Many of my friends who have been successful investors seem to be buying them. They don't usually buy junk. Would you give me a little information about them?

The June issue of *Better Investing* magazine carries a story on junk bonds by Leonard Reiser, which you should find interesting. Reiser defines those bonds as risky bonds that pay a high interest rate. They are usually issued by companies whose credit ratings are below investment grade. For your information, that is a very large number of corporations, since less than four percent of all U.S. corporations have investment-grade credit ratings.

THE DEFAULT rate of less-than-investment-grade corporations is not large. It has been just 1.2-1.5 percent. However, in recent years the number of these bonds has risen exponentially. In 1948, there were just \$2 billion of these bonds; in 1986, the total was \$180 billion. Such bonds are now estimated to be as much as 20 percent of the debt issued by approximately 1,000 corporations.

A large amount of these bonds have been issued in connection with corporate takeovers and restructurings. The extra risk comes from at least two areas.

One is the less-than-investment-grade quality of the issuer.

THE SECOND is the fact that in



today's investor

Thomas E. O'Hara

of the National Association of Investors Corp.

most cases they represent a sizable increase in the debt of the issuing corporation. The volume of debt makes the corporation much more subject to getting into trouble if there is a slight downturn in business.

It is not likely every corporation that has issued this kind of debt will

get into trouble, but our concern as investors is not to be the owner of those that have trouble. When LTV went into bankruptcy in 1986 and stopped payment on \$2.1 billion of its junk bonds, the owners of those bonds became acutely aware of the risk.

IT IS interesting to see who owns

all this junk. Mutual funds own about 30 percent of all junk bonds. Insurance companies own another 30 percent. Pension funds own 15 percent. Savings and loan associations have eight percent. Individual and foreign investors each have five percent. Other corporations have three percent, and securities dealers have one percent.

In recent years, the mutual funds specializing in these bonds have been star performers. Their high return is difficult to match with other investments, and as long as the day of reckoning can be postponed, the ride is great.

In the mid 1990s, these bonds will start to come due. It will be interest-

ing at that time to see how many holders will receive cash and how many will be asked to take another piece of paper.

Thomas O'Hara welcomes your questions and comments but will answer them only through this column. Readers who send in questions on a general investment subject or on a corporation with broad investor interest and whose questions are used will receive a free one-year subscription to the investment magazine *Better Investing*. For a sample copy of "Better Investing" or information about investment clubs, write Today's Investor, PO Box 220, Royal Oak MI 48068.

## datebook

### FINANCIAL PLANNING

Thursday, June 15 — Personal financial planning seminar offered in Southfield. Non-member fee: \$5. Information: 965-5088. Sponsor: Women's Economic Club.

### RETIREMENT PLANNING

Thursday, June 15 — "Retirement Planning After Tax Reform" begins at 7 p.m. at the Rochester Community House, 816 Ludlow, Rochester. Free. Information: Emily Ferry, 652-3200. Sponsor: PaineWebber Inc.

### WORLD TRADE CLUB

Thursday, June 15 — Author gives address, "1992 Strategic Issues for U.S. Multinationals," beginning at 7:15 p.m. at Dunham's River Place, 2678 Joseph Campus, Detroit. Non-member fee: \$25. Information: 964-4000. Sponsor: World Trade Club.

### MINORITY WOMEN'S NETWORK

Friday, June 16 — Minority Women's Network holds its annual Man of the Year Awards/Scholarship Dinner-Dance at the Southfield Hilton. Fee: \$30. Information: M. Faye Mance, 896-6200 or 896-3802.

### WRITING SEMINAR

Friday, June 16 — "Powerful Business Writing Skills" offered 8:45

a.m. to 4:30 p.m. at Walsh College, 3838 Livernois, Troy. Fee: \$125. Information: 689-8282 Ext. 260.

### ACCOUNTING MALPRACTICE

Friday, June 16 — "Preventive Issues in Accounting Malpractice" offered 4:30 p.m. at Walsh College, 3838 Livernois, Troy. Fee: \$63. Information: 689-8282 Ext. 260.

### COUPLES IN BUSINESS

Friday-Sunday, June 16-18 — "Working Together: Entrepreneurial Couples" offered in Troy. Non-member fee: \$295. Information: Walsh College, 689-8282 Ext. 260. Sponsor: National Association for Entrepreneurial Couples.

### WOMEN'S SEMINAR

Saturday, June 17 — Breakfast workshop with presentation on "Key to Successful Relationships" by president of Key Solutions/Beyond Tough Love" 9 a.m. to noon at the Botsford Inn, 28000 Grand River, Farmington Hills. Fee: \$17 at the door. Information: Linda Shapona, 981-3281. Sponsor: Wolfe Associates.

### ACCOUNTING PARAPROFESSIONALS

Monday, June 19 — Summer term for accounting assistants, which can include 80-hour internship, begins at

Oakland University in Rochester. Information: Division of continuing Education, 370-3120.

### LEGAL SECRETARIES

Monday, June 19 — Oakland County Legal Secretaries Association meets at 5 p.m. at the Kingsley Inn, 1475 N. Woodward, Bloomfield Hills. Tonight's topic: changes in juvenile law. Information: Vicky Metalski, 362-3707.

### CARIBBEAN INVESTING

Monday, June 19 — Investing in the eastern Caribbean will be discussed 9 a.m. to 5 p.m. at Cobo Hall in Detroit. Fee: \$25. Information: state Rep. Carolyn C. Kilpatrick, 1-517-373-0844. Sponsor: Eastern Caribbean Investment Promotion Service.

### ESSENTIALS OF GRAMMAR

Tuesday, June 20 — "Essentials of Grammar for Clerical and Administrative Staff" offered 9 a.m. to 4 p.m. at the American Society of Employers Conference Center, 23815 Northwestern Highway, Southfield. Non-member fee: \$205. Information: 353-4500. Sponsor: American Society of Employers.

### EFFECTIVE INTERVIEWING

Tuesday, June 20 — "Effective In-

terviewing and Selection — Advanced" offered 9 a.m. to 4 p.m. at the American Society of Employers Conference Center, 23815 Northwestern Highway, Southfield. Non-member fee: \$205. Information: 353-4500. Sponsor: American Society of Employers.

### APPRAISERS SOCIETY

Tuesday, June 20 — Detroit Chapter of the American Society of Appraisers meets at 6 p.m. at Southfield Charley's, 19701 W. 12 Mile, Southfield. Speaker: sales manager for Ohio real estate information company for appraisers and assessors. Information: 625-2774. Anyone may attend.

### EFFECTIVE LISTENING

Wednesday, June 21 — "Strategies for Effective Listening" offered 9 a.m. to 4 p.m. at the American Society of Employers Conference Center, 23815 Northwestern Highway, Southfield. Non-member fee: \$205. Information: 353-4500. Sponsor: American Society of Employers.

### INTERNATIONAL BUSINESS

Wednesday, June 21 — International Business Forum meets at 11:45 a.m. at the University Club, 1411 E. Jefferson, Detroit. Fee: \$15. Information: Don Keesee, 540-2615.

### GIVEN MEETING

Wednesday, June 21 — Detroit

Delta chapter of Charles J. Given Organization meets to hear "Tax Planning for 1989" at 6 p.m. at the Ramada Inn, 11½ Mile and Telegraph, Southfield. Information: Greg Adair after 6:30 p.m.: 421-6915.

### DP MANAGERS

Wednesday, June 21 — Detroit Chapter of the Data Processing Management Association meets at 5:30 p.m. at the Southfield Hilton, 17017 W. Nine Mile, Southfield. Topic: "Effective Use of Recruiters in Data Processing." Non-member fee: \$20. Information: 355-4400.

### SUBCONTRACTORS

Thursday, June 22 — American Subcontractor Association-South East Michigan holds annual dinner. Information: David Hinman, 351-0980.

### GENERAL CONTRACTORS

Thursday, June 22 — Building relationships with Japanese clients discussed at meeting of Association General Contractors of America at the Engineering Society of Detroit. Information: Nikki Sacco, 256-7700.

### QUALITY CONTROL

Friday, June 23 — Greater Detroit Section of American Society for Quality Control meets 7 p.m. at the Roundtree Subdivision clubhouse, Big Beaver east of John R. Troy. Topic: "Sensory Perception." Information: Maureen Heaphy, 363-1654.

## marketplace

Harnes, Dickey & Pierce has moved to Long Lake and Crooks Road in Troy.

PRMI of Southfield has been retained for advertising, merchandising and public relations by AutoMag-ic Inc.

Also, PRMI has been selected for advertising and public relations by Palm Beach Patio Furniture.

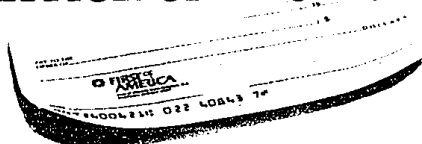
Englander's of Birmingham won a Crystal ADDY Award for a free-standing insert created for its summer sale. The eight-page insert was created by The Berline Group, Englander's advertising and public relations agency.

Kolon, Blitker and Desmond Inc. was selected by Comfortone Corp. of Nashville, Tenn., as its marketing, advertising and public relations agency.

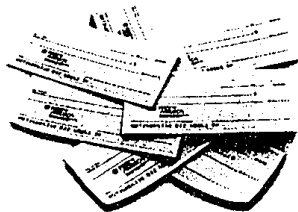
Contract Interiors Inc. of Southfield has chosen Hermanoff & Associates as its public relations firm.

RE/MAX Detroit Metro Inc. of Southfield is making available its seven-and-a-half story high hot air balloon to charitable agencies and civic organizations. The hot air balloon also will join 300 other hot air balloons at the RE/MAX Balloon Festival Aug. 11-13 in Denver.

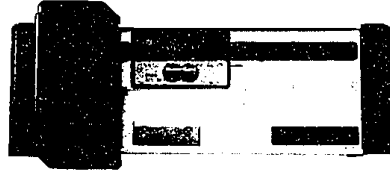
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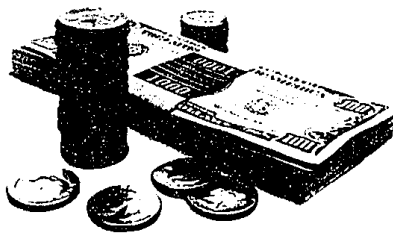
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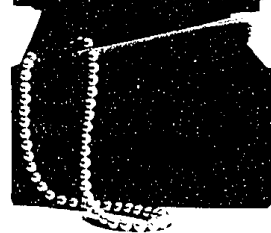
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a 1/2 percent bonus rate on a new one-year CD.\* That alone could save you more than you're currently paying in fees. Which makes the Prime Time Account hard to say no to.

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