Know possible risks when working with bonds



features of a fixed-income se-curity. This week's column explores various risks associated with a bond.

Many Faces of Risk Even bonds with identical maturities and yield-to-maturity or YTM, can significantly differ from one another because of the varying degrees of risk associated with them. Several types of risk have telling effects on bond prices, as discussed below.

Interest Rate Risk: The interest rate risk refers to the possibil-

est rate risk refers to the possibil-ity of variations in bond prices as a result of fluctuations in market interest rates. As a general rule, when market interest rates rise, bond prices decline. The opposite is true when market rates drop. Figure 1 demonstrates this rela-

Figure 1 demonstrates this relationship.

The interest rate-bond price relationship.

The interest rate-bond price relationship conceals an important fact. Even in the case of a perfectly safe, non-callable Treasury bond, the impact of the rise in interest rates can be dewastating. For instance, Figure 2 reveals that a mere 2 percent increase in the interest rate would alsah the price of a 20-year, 7.6-percent Treasury bond by 18 percent. Of course, the reverne is also true. In 1991, for instance, because of steadily declaining interest rates, long-term clining interest rates, long-term

Treasury bonds racked up total returns of 19.3 percent — a stunning performance not likely to be repeated any time in the near fu-

sing performance not likely to be repeated any time in the near future.

Inflation Risk: The inflation risk is the impact that inflation risk is the impact that inflation risk is the impact that inflation has on the coupen payments and the return of the principal. For instance, if a contract is made under which an investor holding a 10 percent bond occives an interest payment of \$100 at the end of one year, the nominal interest is powered. He had not year, the normal interest is powered, then the real interest (adjusted for inflation) would be percent. Hen the real interest (adjusted for inflation) would drop to \$343.40 in real oldling, a loss of 5.60 percent.

Maturity Risk: Because the future is assumed uncertain, investing in a bond with a longer interest in the shorter term investments to minimize risk, they require a higher remain for investing in long-term accurities. Borrowers a willing to pay the premium because they want to avoid the impact of future increases in interest rates.

Default Risk: Yields reflect a

rates.

Default Risk: Yields reflect a borrower's credit quality, Lower quality, or non-investment grade bonds — those rated BB or below — generally offer higher yields than better quality issues, but they have more potential for price volatility. The higher yield compensates the investor for lending money to a company that is considered more likely to default in

terms of interest and principal payments.
Thus, a rising yield (or falling price) on a bond may reflect a company's deteriorating financial situation rather than any overall rise in market interest trace. Similarly, when a company's financial situation improves, generally the yields on its obligations decline.
Callability Risks: Callability risk refers to the possibility of the bond's being called before maturity, Typically, if a bond is called to the permittin is paid by the issuer to the bondholder, this premium to the bondholder, this premium to the word of the called at the end of the call protection period would be one year's interest.

Place Deduction Strategies.

Risk Reduction Strategies

Risk Reduction Strategies
Several risk reduction strategies applicable to bonds are available that have worked well over
time Some are discussed below.
Laddering Bond Investments—
whether an investor holds individual bonds or shares in funds—
is a commonly recommended
strategy that may be solitable for
bond investors. Laddering means
buying bond investments that
mature at different times. As a
rule, investors should buy bonds
with maturities within a ten-year
time horizon. That way, every
other year or so, they can roll over
about 20 percent of their portfoli
nto new bonds at the prevailing
rates. With this approach, investors can catch high yields when
interest rates rise, and premium
prices when they drop, which can
help smooth out the overall volatility of their portfolio over time.

Diversifying with Interna-tional Bonds: Many foreign countries are still in recession, or are beginning to recover. So for

Diversifying with International Bonds: Many foreign countries are still in recession, or are beginning to recover. So for now, higher interest rates may be available in international bond funds.

But investors going overseas for bonds should not let the relatively high returns tempt them into putting too much of the portfolio in these potentially volatile markets. So, 10 to 15 percent of the total funds invested in fixed-income securities should be sufficient to increase the foreign exposure measurably and get the diverification needed to help mitigate price and interest-rate risks on the domestic holdings.

Investing in Tax-Exempt Bonds: Yields on tax-exempt Bonds: Yields on tax-exempt Bonds: Yields on tax-exempt bonds may still look attractive in comparison with taxable bond yields, especially for investors who pay top tax rates. And in a higher tax environment, increased demand for tax-exempt funds can help provide some support for municipal bond prices.

Adopting Dollar-Cost-Averaging Strategy: A simple method that can help obtain good values in the bond market is dollar-cost averaging goes in investors' needs. This strategy can be particularly effective when reinvesting bonds that have come due, or shifting investments to reflect changing goals and needs. With dollar-cost averaging doean't protect against a loss in declining markets or ensure a profit in rising

THE RELATIONSHIP OF PATESTO PRICES

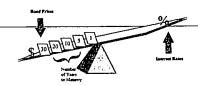
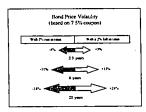


Figure 2



Sid Mittra, Ph.D., CFP, is pro-fessor of finance, Oakland Univer-

markets, and investors may have
a gain or loss when they sell their
shares in bond funds.

Sid Mittra, Ph.D., CFP, is professor of finance, Oakland University.

BUSINESS MILESTONES

This column highlights promo-tions, transfers, hirings and oth This column highlights promo-tions, transfers, hirings and other key personnel moves within the Oakland County business com-munity. Send a brief blographical summary—hockeling the towns of residency and employment and a block-and-white photo, if desired — to: Business Editor. Eccentric Novespapers, 805 E. Maple, Birmingham, MI 48009,

Del A. Szura opened a law off-ice in downtown Rochester. He had been a commercial litigation attorney for Dickinson, Wright, Moon, Van Ducsen & Greeman. The office number is 652-8900.

Lynne Dodson was appointed branch manager at Metrobank's newest location in West Bloom-field. Shelley Diabro was named branch manager at Metrobank's Farmington office. Rick Stafford was appointed marketing mana-ger of Metrobank in Farmington Hills.

Sharryn Kneshtel was ap-pointed Midwest salesman for Palmer Paint Products in Troy. She had been a design consultant. Garrett Heas was appointed East Coast salesman. He had been technical director.

Jane McNamara was elected president and chairman of the board for the Society for Consum er Affairs Professionals in Business in Farmington Hills. McNamars is executive vice president and chief operating officer of consumer Credit Counseling Services of Michigan.

James Martin, a representa-tive of the Baker Financial Group in Southfield, earned the designa-tion Chartered Financial Analyst.

Tom Krehbiel was promoted Tom Krebblel was promoted to senior partner, management aupervisor on Jeep advertising/ merchandising with Bozell Worldwide line. In Southfield. Bruco Clayton was promoted to account supervisor, Jeep national merchandising. Andros Cagnon joined the Jeep team as assistant account executive.

Renee Roemmele of the Conk-lin-Palmer Inaurance Agency in Farmington Hills was awarded the designation of Corilled Insur-ance Service Representative by the Michigan Association of In-surance Agenta.

Kathryn Gorcyca of Hylant-MacLean Inc. in Troy was award-ed the designation of Certified In-surance Service Representative by the Michigan Association of Insurance Agents.

Susi Adams and Kristine Wandt were promoted to supervi-

sors in the media department of BBDO Detroit in Southfield.

Gerald Van Wyke of Birming-ham joined the Detroit law firm of Peikens, VanderMale, Sievens, Bellamy & Gilchirst. Van Wyke has 25 years of legal and business experience, 15 of which were spent practicing law at the Detroit firm of Bodman, Longley & Dahling.

Sharon D. Campbell joined Stone, August Baker Communi-cations Cos. in Troy as witer/edi-tor for the group's public relations and human resource services. Be-fore joining the company, Camp-bell was public relations/market-ing director for the Flint YMCA.

Tierney Ohly of West Bloom-field was promoted to independ-ent regional advisor in the Longo berger Co. sales program Ohly is one of more than 23,000 inde-pendent associates representing the company nationwide.

Charles E. Lewis Jr. and Mi-chael C. Nowicki were promoted to associates with Giffels Hoyem Basso Inc. in Troy. Lewis joined the company in 1986. Nowicki joined the firm in 1984.

Sandra C. Spears of South-field was promoted to assistant public marketing manager at To-tai Health Care, a health mainte-nence organization based in De-troit. Spears will manage more than a dozen marketing repre-sentatives and recruit physicians as primary care providers.

Gregory Myford of Rochester was named director of sports event sponsorships, and Cralg Rosenthal of Livonia was named director of event sponsorships for Palace Sports and Entertainment with the Palace of Auburn Hills.

Manny Demba, president of MJ Group I Ltd. of West Bloom-field was invited to participate in the sixth annual National Associ-ation of Home Builders' Custom Builder Symposium in San Diege Calif

James E. White was named regional director of First Industri-al Realty Trust Inc., Michigan Region, which is in Troy. White is chief operating officer.

Peggy Pentecost of Birming-ham was promoted to marketing communications manager in the marketing department of Deloitte and Touche in Detroit. She had been a marketing communica-tions specialist.

Ronald E. Smolinaki was pro-moted to executive vice president of Huntington Banks of Michi-gan, which is headquartered in

Troy. Smolinaki will continue t manage all retail lending func-tions.

Dan Reeves was named mem-bership director with the Associ-ated Food Dealern of Michigan in Southfield. Reeves had worked for the Michigan Restaurant Associ-ation in Lansing.

Don Tanner of West Bloomfield was named account execu-tive for Marx Layne & Co., a Farmington Hills-based market-ing and public relations firm.

Tammy Brown joined Conway MacKenzie & Dunleavy, a finan-cial and management consulting firm in Birmingham. She has be-come an associate.

Kris Shaffer of Birmingham was promoted to vice president, associate director of strategic planning for the Lincoln brand group with Young & Rubicam De-troit

Brian J. Lealle was named vice president-Chevrolet marketing with the Sandy Corp. in Troy. Other promotions were Ted M. Przybocki to creative director-Chevrolet marketing and kimberly Downs to business lead-Chevrolet marketing.

Samuel A. Walker III of Birmingham was promoted to president of Talon Development Group Inc. in Detroit. Walker joined the group as a consultant in 1991 and served as executive vice president prior to his current position.

Patrick G. Dunloavy, partner in the Birmingham-based Con-way MacKenzio & Dunleavy, was named a Certified Fraud Examin-er by the Association of Certified Fraud Examiners.

Joseph Antonini, president of Kmart Corp. in Troy, received the Cor Vitae (Heart of Live) Award from the American Heart Associ-

ation.

Jerry Fournier of Farmington
Hills and Mary Westcott of
Bloomfield Hills were honored by
HDS Services of Farmington
Hills for their years of services.
Fournier, HDS Services executive
toe president, was honored for 25
years. Westcott, regional vice
president of operations, was honored
for 30 years.

The following people were promoted to managers in the man-sgement consulting department in the Detroit office of Deloitte & Touche: Mark Davis of Farming-ton Hills, Terones Hamilton of Franklin and Delo Stoel of Livo-nia.

Mark A. Davis and Carolyn M. Claerhout of the Bloomfield Hills office of Howard & Howard Attorneys, P.C. have become shareholders of the corporation.

Michael Simonte of Farmington Hills was promoted to senfor audit manager for Ernst & Young's Detroit office. He joined the firm in 1986.

Robert Butters of West Bloomfield was named director information systems at Detroit-based Michigan Health Care

Corp. He has more than 24 years of computer and telecommunica-tions experience.

James Martin of West Bloomfield earned the designation of Chartered Financial Analyst. Mortin is a financial advisor with the Baker Financial Group.

David M. Schmidt of Roches David M. Schmidt of Roches-ter Hills joined Ellis/Nacyaert/ Genheimer Associates Inc. in Troy as chief electrical engineer. Schmidt has 25 years project management and consulting experience in the electrical area.

Sarah Beth McDonald of Troy and Tony Wenson joined the staff of in-house writers and pro-ducers for MVP Communications Inc. in Troy. Each is now a pro-ducer/writer/director.

Michael Kenny was promoted to account supervisor on the Rockwell International Corp. ac-count at the Detroit office of Bozell Worldwide Advertising in Troy. He had been senior account executive.



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Mike Jenkins, Director, Investment Marketing - Fidelity Investments
Bruce Rockwell, Senior Vice President - First of Michigan Corporation

Date: May 9, 1995 Time: 7:30 p.m. Location: Southfield Radisson at Prudential Town Center 10 Mile at Evergreen, Southfield

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