VOLUME 28, NUMBER 7 JULY 2018

Edited/Published exclusively for leading financial professionals - www.bobveres.com

Individual Bonds Made Easy

Synopsis: ***Here's a new service that makes it easy to create bond portfolios, define how they'll behave in future interest rate scenarios, and buy at institutional prices.***

Takeaways: ***There are often better strategies for income or defensive purposes than the simple bond ladder.***

Having covered sophisticated investment management strategies and portfolio management for 35 years, I feel like I'm starting to get the hang of it—except when it comes to investing in individual bonds. All of a sudden, instead of evaluating the prospects of a company or the track record of a mutual fund manager, you're looking at maybe buying at a premium to get a higher coupon yield, managing duration in an ever-shifting interest rate environment where the consensus forecasts can be wrong for most of a decade, evaluating credit quality and scratching your head over pricing. Do you want tax-free, corporate or Treasury securities, or some combination of all of the above—and in what combination? When something happens to a company, state or municipality that affects the credit rating, how do you find out, and what do you do with that information?

Beyond that, every time you buy or sell, you're wading into a market where the markups are not disclosed and the pricing is opaque. People who have noticed that they're swimming in the same water as a school of sharks probably experience a similar feeling of vulnerability.

> ***There are many good reasons to own individual bonds in a rising rate environment.***

There are good reasons to own individual bonds. You control the taxation. You gain certainty about the cash flows (assuming no defaults). You can define your own strategy for managing the risk of rising interest rates, and even when those rates rise and erode the value of the client's bond holdings, clients don't see themselves losing money on a mutual fund statement quarter after quarter after quarter. They see the certainty of coupon payments and the return of their principal on the maturity date. If there is a "bond apocalypse," where higher rates lead to funds posting losses on their statements, leading to redemptions, leading to forced selling at a loss, leading to more unfortunate performance statement numbers, leading to another round of redemptions—well, let's just say with individual bonds you have more control over your return experience.

But who wants to swim with sharks? Wouldn't it be nice if you could just tell a trusted institutional buyer exactly what you want, and have their algorithms evaluate tens of thousands of issues, looking for the combination of yield, taxable or not, duration etc., and give you a customized portfolio for your clients exactly the way you want it, and then buy it for you at institutional prices?

We are actually not fantasizing here. Such a service exists, though it's new to the advisor space.

Meet Jason Stuck, managing director and head of portfolio management at Northern Capital, the Andover, MA-based institutional investment management firm that specializes in the fixed income market. Since

1996, Northern Capital has advised banks, charitable organizations, foundations, endowments, family offices and corporate pension plans on how to build their bond portfolios. Since the beginning of this year, Northern Capital's newest program—that Stuck manages—also helps financial planners define their bond strategies and buy at prices that are reasonable and fully-disclosed.

"This has been a lot of work," Stuck admits, adding that Northern Capital had the parsing and trading capabilities when he arrived last year. "But to work effectively with financial planners, we had to build the strategy analysis capabilities, and then develop transparency reports," he says. "I think this is going to be an absolute game-changer for our clients and for the industry—to just be fully-transparent and objective and clear about buying individual bonds in client portfolios."

Buying process

How does it work? Stuck says that the first important piece of the puzzle was to treat advisors like institutional buyers: that is, instead of requiring them to invest in an SMA wrapper or some other complex arrangement, Northern Capital will help advisors buy bonds that will be held at their custodian. Instead of restricting their choice to munis, the company also creates models employing corporates, CDs and agency bonds, so advisors can practice asset location strategies with their fixed income allocations.

"At Northern Capital, we don't underwrite anything," Stuck explains, "and we don't have an inventory. We want to be completely independent and objective." The firm monitors more than 300 bond inventories, including the big names like Barclay's and Goldman Sachs, and a lot of small regional bond specialists you've probably never heard of.

Every morning, the Northern Capital system receives updated pricing on bonds from institutional inventories and small regional bond specialists.

"Every morning, the system has updated all the pricing on the bonds," says Stuck. "If I want to buy a CD on behalf of an advisor who wants a 5-year strategy, I see immediately that the maximum maturity I can buy is 60 months, and I want to see everything that is $50,000 and above. I don't want any zero coupons, and I want my price to be between 98 and 102."

Are CDs really priced that way? "There's a big secondary market, where CDs can trade at premiums," Stuck explains. With me looking over his shoulder, he finds 364 available CDs that fit those criteria.

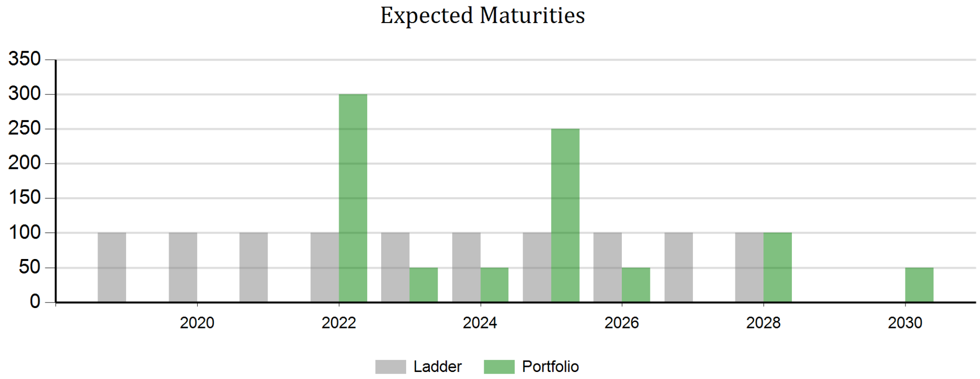
Then he specifies a duration of between 2.5 and 5 years, and wants to maximize the return for a 2-year period if rates were to go up 100 basis points. An alternative (which will be explained below) would be to buy bonds that would provide a positive return even if interest rates were to rise 300 basis points over the next three years. "It's telling me that 2020 and 2021 maturities are what we need to focus on," says Stuck. "The output tells me, these are the exact bonds to buy, these are the prices, and we put ten basis as our markup, so the system automatically adjusts and marks up 10 basis points from our cost to purchase."

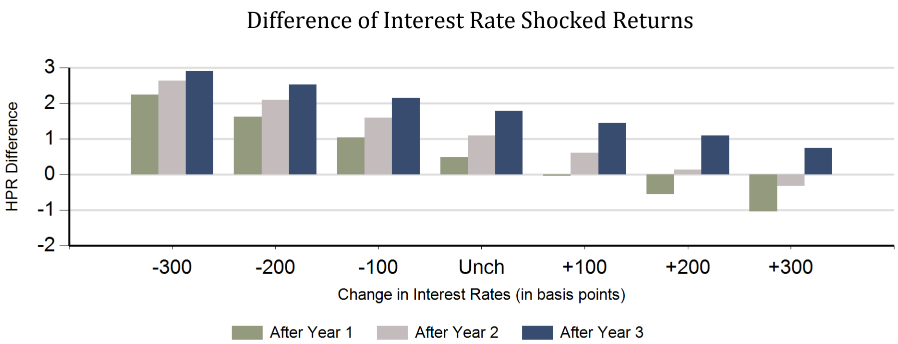
That ten basis points, which could fluctuate slightly—sometimes down, as you'll see in a minute—is the entire compensation that Northern Capital receives for its work on behalf of advisory firms.

"You can also shop for an investment grade corporate strategy, or high-grade, meaning A or better," says Stuck. "With corporates, it can get a little tricker, because you might want to exclude some names, and add a couple of different criteria," he adds. "But basically we're filtering out that market, saying: this specific type of corporate issue is what we're looking for, taking that big universe of possible opportunities and narrowing it down to a custom set of bonds that fits their criteria."

The selection process for municipal bonds works essentially the same way. The advisor can specify avoiding bonds in Illinois, Connecticut, Puerto Rico, Guam and the Virgin Islands, due to various solvency issues, and shop

Figure 1: Northern Capital Shock Report





After Year	-300	-200	-100	Unch	+100	+200	+300
1	2.24%	1.62%	1.04%	0.49%	-0.04%	-0.55%	-1.04%
2	2.64%	2.10%	1.59%	1.09%	0.61%	0.13%	-0.32%
3	2.91%	2.52%	2.15%	1.79%	1.44%	1.09%	0.74%

the country or focus on the client's state to maximize the tax benefit. The software will filter by duration and credit rating.

Portfolio diagnostics and strategy analysis

For most advisory firms, buying the actual bonds is the third step of a more deliberate process. "We'll generally start with diagnostics, where the advisors will define the overall investment parameters for a particular client," says Stuck. "Do they want an intermediate muni strategy? Do they want a corporates strategy? And then I'll take their fixed income investment policy and write a term sheet that will say, this is the objective of this strategy. This is what we're trying to do. These are the types of investments that we are going to invest in. And almost as important, this is what we're not doing," Stuck adds. "It can say, we are not going to go below single-A, we are not going to go past 15-year maturities. We are going to be diversified; we are not going to go above 20% in any single state when it comes to munis and no individual holding is going to be more than 5% of the portfolio."

This overview of the buying parameters can then be put into a nicely-formatted PDF document under the wealth management or advisory firm's letterhead, so the advisor can get buy-in at the next client meeting, or forward it to the client for approval.

Step two is to find the types of bonds that would fit a client's particular strategy. There are a variety of possibilities. The client might want to maximize cash flow to meet future expenses, or the advisory firm might simply want the bond allocation to provide ballast for the overall portfolio. Not uncommonly, advisors have an opinion about the kind of scenario they want to prepare against, such as rising interest rates; the goal is to create a portfolio that will be somewhat immunized from a rising rate environment.

"A lot of our advisors are saying: I want to go out on the curve far enough to get some return," says Stuck, "but I also want to be protected if rates were to go up 300 basis points. I'm okay with being down 1.6% if that scenario occurs, but I also want to get something more like a 7% total return if rates are unchanged."

The default strategy for many advisors is a bond ladder, and Stuck's software will start with a simple ladder and then optimize for better solutions. Taking into account the cash flows, maturities, buying older, higher-yielding bonds at a premium, the software will look for a mix that is optimized for the strategy the advisor has articulated.

The output—called a "shock report"—looks something like Figure 1 and Figure 2. The first page shows the allocations for a simple ladder (gray bars) alongside an optimized portfolio solution (green bars) that looks very different. The optimized version has one much longer maturity position, going out to 2030, and higher allocations (than the ladder) to bonds maturing in 2022 and 2025.

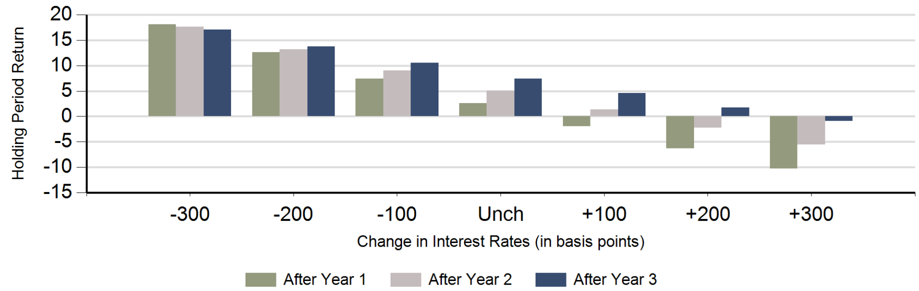
"All we're doing is taking the same bonds and buying a different allocation instead of just going automatic with the standard percentages in a ladder," says Stuck.

Figure 1 shows the actual annualized return difference between the two options. If rates are unchanged (middle of the table at the bottom), the customized portfolio will outperform the ladder in the first, second and third years. If rates were to rise 100 basis points in one year, the ladder would do slightly better, but the customized portfolio would outperform if the 100 basis point rise were extended over two or three years. Over three years (bottom row of the Figure 1 chart at the bottom), the customized portfolio would produce a higher return under every scenario, from rates falling 300 basis points to rates rising a similar amount.

Figure 2, which is part of the same analysis, includes a chart and table which show the raw returns of the customized portfolio (at the top) compared with the raw returns that could be expected from the laddered portfolio (the chart and table at the bottom).

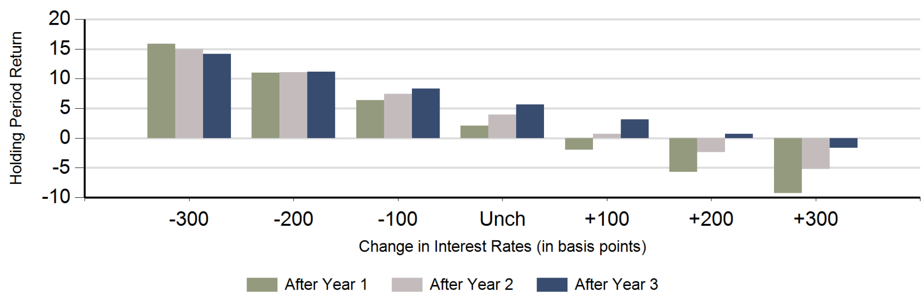
Figure 2: Northern Capital Shock Report

Portfolio Interest Rate Shocked Returns



After Year	-300	-200	-100	Unch	+100	+200	+300
1	18.10%	12.58%	7.41%	2.57%	-1.98%	-6.26%	-10.28%
2	17.61%	13.18%	9.01%	5.06%	1.33%	-2.21%	-5.56%
3	17.11%	13.72%	10.51%	7.46%	4.55%	1.78%	-0.87%

Ladder Interest Rate Shocked Returns



After Year	-300	-200	-100	Unch	+100	+200	+300
1	15.86%	10.96%	6.37%	2.08%	-1.94%	-5.71%	-9.24%
2	14.97%	11.08%	7.42%	3.97%	0.72%	-2.34%	-5.24%
3	14.20%	11.20%	8.36%	5.67%	3.11%	0.69%	-1.61%

Why not just go defensive, because don't we all know that interest rates are going through the roof? Stuck points out that people have been predicting a rapid rate rise for about eight years now, and have generally been wrong—costing them yield in the meantime. "The Fed just raised rates the other day and promised to do it again in a few months," he says, referring to the June decision. "And the bond market actually rallied. You look at economists, who have teams of analysts, they've got all the data that you could possibly want, and they can't predict what's going to happen. How in the world could you and I do it?"

Transparency reports

Once you decide on a strategy, it's time to buy the bonds. This is the point where a lot of advisors are reluctant to dive into the water, possibly due to the presence of those sharks they see swirling around in anticipation of their entry. How do you know you're getting the bonds at a fair price, and how do you communicate to the client exactly what was purchased?

After the advisor agrees on the strategy, and gives the go-ahead to buy the bonds that will implement it, after the purchases have been made, Northern Capital sends her a "transparency report," which is illustrated in Figure 3. This is an actual report for an actual client, and it would be white-labeled to that advisory firm. In this case, the list is year-to-date; this shows the first page of a more extensive report, illustrating (moving from the left-hand column to the right) the dates of the trades, the cusip numbers, a description of the securities that were purchased (in this case a

Figure 3: Northern Capital Transparency Report

Trade Date	CUSIP	Security Description	Par Value	Coupon	Maturity Date	Callable Date	Execution Time	Dollar Price	Prevailing Market Price*	Purchase Yield
1/3/2018	498062PQ5	Kitsap Cnty Wash Sch Dist No	50,000	4.000	12/1/2032	6/1/2027	1547	111.967	2.660	2.560
1/5/2018	0876717G2	Bettendorf Iowa Go Ref Bds	315,000	4.000	6/1/2029	6/1/2026	1556	113.562	2.320	2.220
1/5/2018	61747MF71	Morgan Stanley Bk N A Utah Cd	250,000	1.950	7/11/2019		1549	99.925	2.069	2.001
1/8/2018	86024WFL9	Stevens Point Wis Area Pub	35,000	4.000	4/1/2032	4/1/2027	1315	111.675	2.670	2.570
1/11/2018	66285TFR9	North Thurston Pub Schs Wash	25,000	5.000	12/1/2025		1547	121.593	2.129	2.020
1/11/2018	419792HV1	Hawaii St Go Bds 2016 F	150,000	4.000	4/1/2028	4/1/2026	1521	113.450	2.316	2.200
1/11/2018	719644EV4	Pickens Cnty S C Go Ref Bds	35,000	5.000	6/1/2025		1529	120.854	2.050	1.950
1/11/2018	864856DX4	Sugar Land Tex Go Ref Bds	75,000	5.000	2/15/2026		1547	122.280	2.100	2.000
2/1/2018	880541XF9	Tennessee St Go Bds B	35,000	5.000	8/1/2024		1751	118.300	2.081	1.981
2/1/2018	207435MR6	Connally Tex Cons Indpt Sch	55,000	4.000	8/15/2027	8/15/2026	1746	112.190	2.510	2.410
2/1/2018	5464167G7	Louisiana State Go Bds D-1	50,000	5.000	12/1/2024		1531	118.480	2.180	2.080
2/1/2018	57582RQX7	The Commonwealth Ma	30,000	5.000	11/1/2027		1533	123.240	2.465	2.320
2/15/2018	897712NF8	Troy Pa Area Sch Dist	50,000	5.000	3/1/2025		1630	116.376	2.550	2.450
2/15/2018	896575FP7	Trinity River Auth Tex Red	50,000	5.000	2/1/2025		1540	116.734	2.470	2.373
2/15/2018	414834RT0	Harrisburg S D Indpt Sch Dist	50,000	5.000	1/15/2025		1529	116.659	2.469	2.369
2/15/2018	897712NF8	Troy Pa Area Sch Dist	40,000	5.000	3/1/2025		1620	116.376	2.550	2.450
2/15/2018	235219JH6	Dallas Tex Go Ref And Impt	50,000	5.000	2/15/2025	2/15/2023	1630	113.001	2.330	2.230
2/22/2018	245176EW8	Del Mar Tex College Dist Ltd	15,000	5.000	8/15/2028	8/15/2026	1245	117.738	2.750	2.648
2/22/2018	605581FQ5	Mississippi St Go Ref Bds	100,000	5.000	10/1/2026	10/1/2025	1604	117.745	2.510	2.428
2/22/2018	971567QW5	Wilmington Del Go Bds 2017	100,000	5.000	12/1/2026		1611	120.453	2.480	2.398
2/22/2018	57582RNL6	Massachusetts St Go Bds C	100,000	5.000	10/1/2025		1655	119.354	2.300	2.218
2/22/2018	419792JT4	Hawaii St Go Ref Bds Fe	100,000	5.000	10/1/2026		1609	120.104	2.480	2.398
2/22/2018	160075XA0	Charleston Cnty S C Sch Dist	50,000	4.000	2/1/2024		1240	110.732	2.180	2.068
2/22/2018	919060HC0	Valdez Alaska Go Bds 2015	50,000	5.000	6/30/2024		1229	115.998	2.380	2.277
2/22/2018	25476FTA6	District Columbia Washington	50,000	5.000	6/1/2036	12/1/2026	1406	115.990	3.030	2.918

lot of munis), the par value of the bonds that were purchased, and the coupon—the yield when the security was brought to market. The next column is the maturity date, and if the bond is callable, that is noted, along with the date, in the next column. There's the time the trade was executed, and the dollar price of that purchase.

The next column, "prevailing market price," represents the yield at which Northern Capital bought the bond—and you can see that most of the securities in this portfolio happen to be older bonds originally brought to market in a higher interest rate environment, now purchased at a premium.

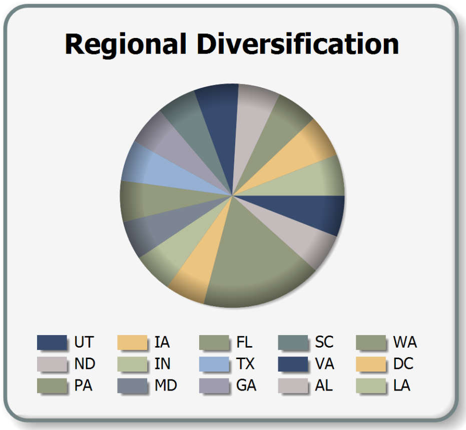
"There's a reason why this client wanted to buy on the secondary market," Stuck explains. "People will say, I don't want to pay a premium for my bonds. Why would I want to pay $128.863 for a bond whose par value is $100? They think they lost something. But when you buy a high premium bonds like that," he continues, "you're collecting a higher coupon between now and maturity in a lower interest rate environment. Everything is accounted for—and this can be a good strategy if you believe rates are going up, because it gives you a chance to reinvest current income at those higher rates. It also helps shorten the duration of your bond exposure."

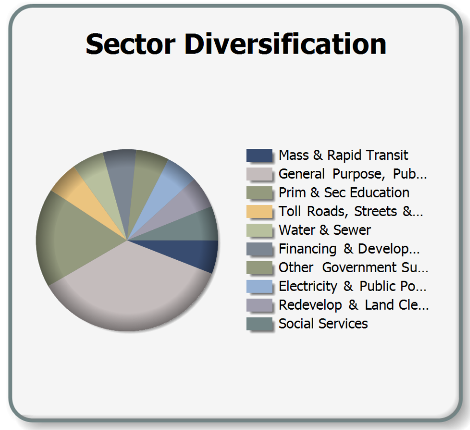
The last two columns define the "transparency" part of the transparency report. The purchase yield is the yield the client will actually receive, which is different from the yield at which Northern Capital bought at, in the previous column.

How different? That's the last column. As mentioned before, Northern Capital's markup—and its sole revenue source in the relationship with advisors—is roughly 10 basis points. For technical reasons, this figure may sometimes be lower, and occasionally drift higher, depending on the cost of the transaction, which, in turn, depends on the size of the purchase and the bond's duration.

Stuck notes that some of the bond purchases on this particular transparency report were made on behalf of several clients—group purchases that were then allocated to different portfolios. "That $315,000 purchase, for instance, was an order that was split up into five different accounts," he says. "The great thing for the advisor

Figure 4: Northern Capital Portfolio Holdings Report





Portfolio Composition and US Municipal 7 Year Index

	Weighting		Duration		Portfolio		Yield to Worst	
	Portfolio	Index	Portfolio	Index	YTC	YTM	Portfolio	Index
Portfolio Total:	AA	AA	5.5	5.0	2.43%	2.45%	2.43%	2.40%
Electricity & Public Power	6%	4%	4.0	4.5	2.10%	2.10%	2.10%	2.35%
Financing & Development	6%		5.6		2.43%	2.43%	2.43%	
General Purpose, Public Improv	36%	33%	6.2	4.8	2.48%	2.55%	2.48%	2.37%
Mass & Rapid Transit	6%	4%	6.0	4.8	2.45%	2.45%	2.45%	2.48%
Other Government Subdivisions	6%		4.0		2.10%	2.10%	2.10%	
Prim & Sec Education	18%	11%	6.2	5.0	2.50%	2.50%	2.50%	2.42%
Redevelop & Land Clearance	6%	0%	3.5	5.1	1.99%	1.99%	1.99%	2.89%
Social Services	6%		7.7		2.98%	2.98%	2.98%	
Toll Roads, Streets & Highways	6%	10%	4.0	4.9	2.25%	2.25%	2.25%	2.37%
Water & Sewer	6%	9%	3.6	4.7	2.55%	2.55%	2.55%	2.21%

is that all five of those clients can get the same bond, same price, and everybody is treated equally."

Of course, aggregated purchases can be favorable from a pricing standpoint, but Stuck says that is especially true when there is a need to sell. "We give advisors the ability to access the institutional market on the sell side," he says, "because you can put that block together and sell it as a big block of bonds, as opposed to trying to sell odd lots."

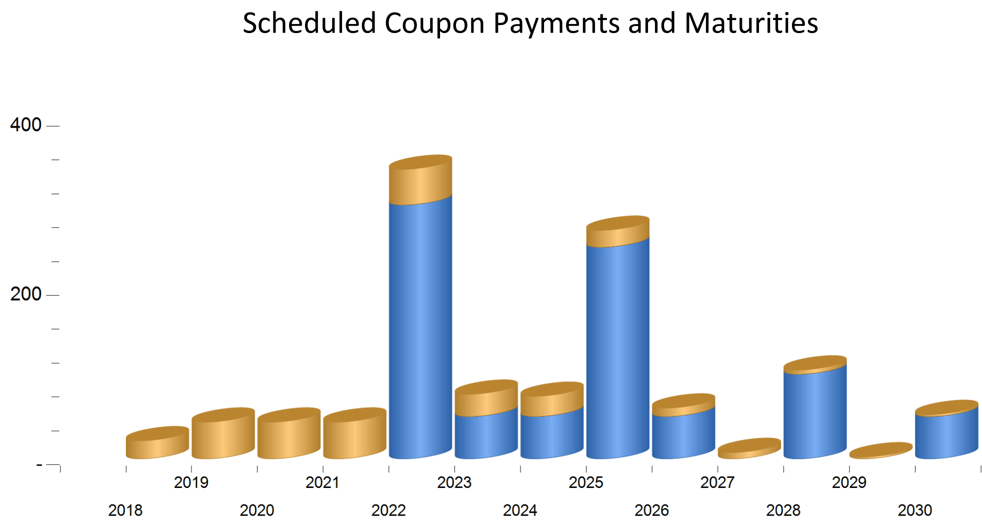
Why individual bonds?

Is that all? Not quite. Northern Capital also tracks each client's investments, and produces summary reports showing the holdings in a variety of ways. Figure 4 shows the regional and sector diversification of a particular client's muni portfolio, and there are similar reports if the client is invested in CDs, corporates, agency bonds or all of the above. Figure 5 shows the spectrum of maturities and lists the scheduled coupon payments. You get a report for each client portfolio.

The company also provides "alerts," which are real-time notifications if there is a change in the status of a bond. "It lets the advisor know which bonds were called, which bonds matured, and if there were any changes to the ratings," Stuck explains. "It comes in the form of an email, with the advisor, the cusip on the bond, the par amount and then the alert, plus whatever portfolio it's tied to."

What Northern Capital does not provide is a direct feed into your portfolio management software, but according to advisors who are

Figure 5: Northern Capital Portfolio Holdings Report



	$21,443	$43,498	$43,498	$43,498	$342,248	$76,498	$73,998	$270,186	$60,124	$7,624	$160,062
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**> or = 2028**
January		$5,000	$5,000	$5,000	$5,000	$3,750	$3,750	$53,750	$1,250	$1,250	$3,750
February		$2,562	$2,562	$2,562	$2,562	$2,562	$2,562	$2,562	$1,312	$1,312	$51,312
March		$1,250	$1,250	$1,250	$1,250	$1,250	$1,250	$1,250			
April		$1,250	$1,250	$1,250	$51,250						
May		$3,750	$3,750	$3,750	$3,750	$1,250	$1,250	$1,250	$1,250	$1,250	$51,250
June		$7,937	$7,937	$7,937	$7,937	$55,062	$53,812	$52,562	$1,250		
July	$5,076	$5,000	$5,000	$5,000	$55,000	$3,750	$3,750	$52,500	$1,250	$1,250	$53,750
August	$2,791	$2,562	$2,562	$2,562	$2,562	$2,562	$2,562	$52,562	$1,312	$1,312	
September	$1,250	$1,250	$1,250	$1,250	$1,250	$1,250	$1,250	$51,250			
October	$1,250	$1,250	$1,250	$1,250							
November	$3,507	$3,750	$3,750	$3,750	$103,750	$1,250	$1,250	$1,250	$1,250	$1,250	
December	$7,569	$7,937	$7,937	$7,937	$107,937	$3,812	$2,562	$1,250	$51,250		

using Northern Capital for their bond investments, that isn't as much of a problem as you might think. "We custody our assets at Schwab and Fidelity," says Jason Staley, director of research and due diligence at Schneider Downs Wealth Management Advisors in Pittsburgh, PA, with $1.3 billion under management. "No matter where Northern Capital is sourcing the bonds from, they can route them into our client accounts. They are not custodying the bonds, so the bonds go right into the custodial accounts."

And that, in turn, allows the information on the individual bonds to flow from the custodian into PortfolioCenter, Black Diamond or whatever you're using to create performance statements. "Once we own them, it shows up in client accounts," says Staley.

Schneider Downs employs a "strategy" consisting of replicating the Barclay's 7-year index, with a duration of between 5 and 6 years, credit quality of A to AA, and making asset location decisions between munis and corporates—which Staley admits is about as plain vanilla as you can get. "We're not trying to add a lot of alpha," he says. "We hope, through execution and security selection, that we might pick up a nickel or two here and there, but mostly we want to own high-quality bonds that will be the ballast of client portfolios."

Staley does look at the shock reports, and uses them in client discussions. But he sees the main value of his firm's Northern Capital relationship in the ability to find the bonds he wants to own. "Their program is able to look at fifty thousand CUSIPs and filter out what bonds look good for your situation," he says. "If we were to go out and say, let's look at what Schwab's desk is offering, it would take us a lot of man-hours."

Why own individual bonds rather than just put the money in a bond fund or ETF? "We do own Vanguard bond funds for clients who have smaller portfolios, and they do a great job," says Staley. "But there's a behavioral factor that comes into play. Some clients like the fact that no matter what interest rates do, if they hold these bonds to maturity, they will earn 2.5%, let's say, and they know they'll get their principal back. Instead of looking at a fund's performance statement and seeing that they lost money this quarter or this year."

Stephen Craffen, partner and senior wealth manager at Stonegate Wealth Management, makes use of the full range of services offered by Northern Capital. "We'll decide, on a client level, what percent of their portfolio should be in fixed income—and we determine where the bonds will be located, in the IRA vs. a taxable account," he says. "Then we do a broad stroke decision on what types of bonds we want: munis or government agencies. With the IRA, we're going to recommend government agencies, and for the taxable account we're going to recommend munis. We tailor this to the client's tax circumstances, and also the cash flow needs." (The firm rarely buys corporates.)

From there, Northern Capital will put together a proposed strategy, which will be reviewed with the client before the purchase decision is made. "They try to optimize the combination of bonds, to try to immunize the entire bond portfolio against interest rate increases," says Craffen.

Beyond that, he believes that the purchase process itself can add some value to his clients. "Jason is quite patient in terms of purchasing the bonds, which is one thing we like a lot," Craffen says. "He buys the bonds and he sends us the paperwork that we send to our custodian, saying: we just purchased X dollar amount of bonds through, and they are going to be delivering them to you, and you need to be delivering the cash to them."

From there, the holding information on the bonds flows into the asset management and portfolio reporting software. "We get an electronic download as part of our normal transaction data from our custodian," Craffen explains, "which enables us to report the bonds on our statements, calculate returns, and even calculate a number of different parameters related to the bonds—duration, yield to maturity and yield to call."

Craffen says that he has the ability to purchase bonds himself; like Staley, he's a CFA with textbook training in how bonds work and what to look for. "We actually have a Bloomberg terminal here," he says. "But it would be a full-time job, sitting at the terminal all day trying to decide which bond makes the most sense with respect to its call features, and whether it is a premium vs. a discount bond. And on top of that," he adds, "you really need an overall methodology like what Northern Capital has on its proprietary software."

Bottom line: it doesn't cost his clients any more for him to outsource this chore. "We get institutional rates on the bond purchases," says Craffen. "If we bought the bonds directly through TD Ameritrade or Schwab or whatever custodian you're using, it would cost more."

And why does Craffen use individual bonds rather than bond funds?

"In certain interest rate environments, it makes a lot of sense to own individual bonds," he says, noting that the long bull market in bonds is over. "If you're in any type of vehicle that maintains a constant duration, as most bond ETFs do," Craffen says, "you're going to start seeing some of your net asset value being whittled away by interest rate increases over the next 5-10 years, which is what we expect to see happen. We don't try to time the market," he adds. "But let's face it: we know interest rates are really low. We know that the economy is heating up. We know that the Federal Reserve wants to gradually increase rates. I think this is one time in particular when it makes a lot more sense to be in individual bonds." ■

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