



The Starboard Side Report

The week ending August 08, 2014

Chart of the Week



Yield Enhancement

Above is a chart of a holding which we have held since last fall. It is an ETF managed by Pimco which purchases Zero Coupon bonds maturing in 25 or more years. Zero coupon investments are a good way to leverage bond interest movements. Last week we talked about how cash has no return and this week we will look at how we have created return on cash. We bought the ETF to enhance or supplement the low yield from our large cash position. The strategy has worked and is outlined below in a table showing how we were able to create almost a 2% overall yield on our large cash positions.

When we purchased this investment, the consensus among the experts was that rates were going to rise and this opinion developed when the FED started to talk about tapering. The problem with that analysis was the lack of growth. The economy was only growing at a 2% clip when the long term zero coupons were trading at almost a 4% yield. We saw this as an opportunity and decided to take advantage of the generous yield with a 10% commitment across all accounts. This ETF had dropped from \$125 during the spring of 2013 and was selling in the fall in the \$85 to \$108 appeared to be a reasonable upside target; it is now \$104. At this point the total return on the remaining investment is over 20%. We sold half of this in early July at \$99 for a total return of approximately 15%. Presently we are getting an average total return of 17.5%.

The following table is an approximation that summarizes the yield enhancement effect; (assuming a \$100,000 investment)

\$90,000 at 0.01%	Bank Money Market Interest	\$ 90
\$10,000 @ 17.5%	Total Return ETF investment	\$1750
	Combination Return	\$1840 or 1.84 % on \$100,000

We are still at risk for the remaining 50% of the position, but based on the above chart, we should have a favorable outcome. When the position is closed, we will no longer be enhancing the cash position. The cash from the sale of the zero position is being targeted for Emerging Market bonds, some of which have favorable yields as well as upside potential. I would like to end with a quote from Felix Zulauf, when recently asked by a journalist, what he is now buying in the market: "Cash to buy cheaper later, gold to sell later higher and some high-quality long duration bonds as a trade to sell later."

Mr. Zulauf is a member of the Barron's Roundtable and a well regarded international investor.

Dividend Payment Record

PIMCO 25+ Year Zero Coupon U.S. Trs ETF (ZROZ)

Jun 30, 2014	0.76 Dividend
Mar 31, 2014	0.68 Dividend
Dec 27, 2013	1.24 Dividend

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Please note: It is the Client's responsibility to notify us of any changes that would influence their financial needs.