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# RETIREMENT INVESTING

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PROTECTION

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## What About Bonds?

Frequently, I am asked whether one should invest in bonds. My short answer is that anyone who wants a balanced portfolio would do well to hold at least a portion of their investment dollars in bonds. My longer answer is that if an investor is retired or approaching retirement that they should have even a larger portion of their investment dollars in bonds.

In general, bonds are debt securities with a stated interest rate with fixed due dates for when interest and principal must be paid. In fact, with inflation comparatively low this is the best time in years to consider this under appreciated asset class. True, most bonds aren't exciting, but they aren't intended to be. Bonds are specifically designed to be a low-risk, low-return investment. While bonds are predictable and usually low-risk, they are not risk free. When you invest in one, you are the bank. Typically, a concern is credit risk - the chance that you may not be repaid. So you first have to consider who is borrowing and when you can expect repayment. Besides credit risk, there also is interest rate risk. Suppose you invest in a bond with a 6% annual interest rate, and rates jump to 7%? You are locked into receiving a lower interest rate until your bond matures, or is called and prepaid.

The main types of bonds are US Government Bonds, Municipal Bonds, Corporate Bonds and Church Bonds. Which type you select depends on your risk tolerance, income needs, and desire to mitigate income taxes.

## US Government Bonds

Theoretically, the most secure bond available are US Government obligations issued by the Treasury Department. Commonly known as "Treasuries," they vary in maturities ranging from three months to 30 years. While some foreign governments have defaulted on their obligations, it is highly unlikely that the US Treasury will. Accordingly, Treasuries are safe havens for US and foreign investors alike, but they pay the lowest taxable interest rates of any of the main types of bonds. The interest is taxed only at the federal level, and is free from state and local taxes.

Long-term Treasuries yield the most, but lately, investors have not been well-rewarded for investing their money long term. Recently, the average 30-year Treasury bond carried an annual yield of 5.65%, while 10- and 5-year Treasuries paid only slightly less, about 5.46% and 5.49% respectively. These tiny interest rate variations reflect a strong economy and investors are nervous that the Federal Reserve Board might change direction and begin to raise short-term interest rates, sending bond yields higher and bond prices down across the board.

## Municipal Bonds.

Municipal Bonds are bonds issued by State and Local Governments. Commonly referred to as "Munis or Tax-Frees," most Municipal Bonds have the added advantage of being free not only from state and local income taxes, but federal income taxes as well. However, with the exception of bonds issued from Puerto Rico, you must live in the issuing state to get the full tax break. Because Municipal Bonds have the advantage of being free of income taxes, the interest rate yields are lower. Currently, 10-year yields on high-quality Municipal Bonds are approximately 4.148%, and 30-year yields are about 4.975%.

# Corporate Bonds

Corporate Bonds, as the name implies, are bonds issued by corporations. Commonly referred to as “Corporates,” Corporate Bond yields are higher than comparable Treasuries, but are fully taxable and have a greater credit risk. Because of the size and strength of the US Government, investors would have more confidence that their money would be returned by the US Government than by General Electric. For example, a bond issued by General Electric would pay a higher interest rate than a bond issued by the US Government. Recently, a General Electric Corporate Bond, maturing February 22, 2011 is yielding 6.136%, and one maturing August 21, 2035 is yielding 6.855%.

# Church Bonds

You guessed it! Church Bonds are bonds issued by a Church. Churches have capital needs requirements like the US Government, State and Local Governments, and Corporations. Usually underwritten for the purpose of property acquisition, building expansion, or debt retirement, most Church Bonds are secured by a First Mortgage lien on the Church property. Many Churches have found that Church Bonds have been the best, and most economical way for a Church to secure financing for its long-term capital needs.

In most cases, funds from conventional lending sources require the Church to adjust the interest rate in about three to five years, many times requiring the Church to periodically reapply or requalify for the loan. On the other hand, Church Bonds “lock-in” the mortgage for fifteen years. Church Bonds provide long-term financing, and provide the Church with fixed payments, protecting it from fluctuating interest rates. Many Churches would prefer to pay interest to their members and other Christian investors, than to a bank. Church Bonds can eliminate the need for costly interim construction financing, and the associated fees and usual higher interest rates. Compared to traditional financing methods, a Church can build equity faster with Church Bonds by rapidly retiring debt.

## Frequently Asked Questions:

### *What are the current interest rates and maturities?*

Currently Church Bonds underwritten by Great Nation offer an interest rate of 7% for six-month maturities to 10% for ten- to fifteen-year maturities.

*How long can money be invested in a Church Bond?* Most Church Bond issues are established with serial maturities. With a serial maturity, the issuer, in this case the Church, will make periodic principal and interest payments over the life of the bond issue. In most cases, bond maturities range from six months to fifteen years.

*When is the amount invested paid back to the bondholder?* Usually, the amount invested is paid back to the bondholder at the stated maturity date. However, the bond may be called by the Church prior to the maturity date, at which time the bondholder receives the entire principal amount originally invested, plus interest accrued up to the call date.

*How is the interest paid?* With Simple Interest Bonds, the bondholder is issued a check by the paying agent every three months. With Compound Interest Bonds, interest is computed, or “compounded” each six months, and added to the principal value of the bond and paid to the investor at maturity, or when the bond is called and prepaid.

*Is the interest earned on Church Bonds taxable?* Yes, interest earned on Church Bonds is taxable as interest income, like a Certificate of Deposit (CD) or a Corporate Bond.

*How is my investment secured?* First Mortgage Bonds are secured by a First Mortgage lien on the Church property. In the unlikely event of a default, the Corporate Trustee for the bondholders can actually sell the Church property to satisfy the debt. More detailed information concerning security for the payment of bonds and risk factors are contained in the prospectus.

*What criteria are used in approving a Church Bond issue?* Through years of experience, and literally hundreds of Church Bond issues, Great Nation has developed what we believe to be conservative criteria for a sound Church Bond issue. We use criteria such as, and certainly not limited to, minimum per-member giving ratios, past history of growth, and a favorable percentage of Church equity to proposed debt. Great Nation also utilizes a proprietary state-of-the-art computer model to calculate and analyze various financial ratios and cash flows to achieve an accurate picture of an individual Church’s financial health.

*In what amounts can Church Bonds be purchased?* Most bonds are normally available in multiples of \$250.

***Can I invest in Church Bonds in my Individual Retirement Account (IRA)?*** Yes, you can invest in Church Bonds in an IRA. IRA rollovers are accepted, in most cases.

***How does a Church repay principal and interest on its bond issue?*** Churches deposit a portion of its weekly or monthly income into its sinking fund account with the Corporate Trustee and Paying Agent. This account is established to ensure an orderly payment of principal and interest to the bondholders. The Church is under contract, made in advance of the bond issue, that payment of principal and interest will be made before other operating expenses are paid.

***Which Church denominations issue Church Bonds?*** Great Nation underwrites bond issues for Churches dedicated to strengthening the moral foundation of America, and promoting Christian spiritual principles. Once this is determined, the Church's quality of credit determines which bond issues are underwritten and offered to our investors.

***What is "Book Entry" form of registration?*** Most bonds are purchased in "Book Entry" form of registration in order to relieve the bondholder from the responsibility of holding the registered bond certificate. Principal and interest payments are automatically sent to the bondholder by the Corporate Trustee and Paying Agent. However, a bondholder may elect to have the bond held in "Registered Form." However, the bondholder must return the registered bond certificate to the Corporate Trustee and Paying Agent prior to having their original investment returned to them. Most bondholders elect "Book Entry" form of registration.

***Does an investor pay a commission when purchasing a Church Bond?*** The investor pays no commission when purchasing Church Bonds. 100% of an investor's money goes to work immediately upon purchasing a Church Bond. Great Nation is paid an underwriting fee by the issuing Church.

***Can I sell my Church Bond?*** Neither the Church nor the Corporate Trustee and Paying Agent is under any obligation to retire a bond prior to its stated maturity date. Therefore, a formal secondary market does not exist. However, Great Nation may act a broker, matching buyers with sellers, and receives a commission for completing the transaction.

For more information regarding Church Bonds, return the enclosed coupon.

## **Bond Funds and UITs.**

Generally, investing in individual bonds is best for preserving capital, assuming they closely match other investment objectives, such as maturity or risk tolerance, but lack the professional management of capital. On the other hand, bond funds and Unit Investment Trusts (UITs) offer convenience and diversification, but you have little or no control over how your money is invested. My recommendation would be to let us help you select the right bond portfolio for your individual circumstances. We believe that by investing in a combination of stocks, and stock or growth mutual funds, in conjunction with a portfolio of carefully-selected bonds, can help to reduce overall investment risk, and provide more consistent returns on your investment portfolio because of a broader exposure to a host of investment opportunities.

## **Summary**

Bonds have a reputation for being a stodgy, slow-moving instrument in which to invest. But they have various uses, even though they may not be as glamorous as stocks or even mutual funds. On the other hand, bonds can be used as a safety net, especially during a bear market. If you are approaching retirement, you may want to consider moving a sizable portion of your investments into bonds, bond funds, UITs, or balanced funds. Certain bonds can also provide tax relief, and some investors prefer the interest payments to dividends from common or preferred stock.

Investors should review their portfolios from time to time to make sure that their asset mix continues to meet their individual investment objectives. As always, we are here to help.

**Fixed annuities, life insurance, and long-term care insurance are not offered by Great Nation Investment Corporation, but are offered through Martin Northern and Insurance Designers.**

Note that investments compared to CDs and Treasury Bonds are not insured while CDs are FDIC insured and the federal government guarantees Treasury Bonds. Nothing herein is intended to be legal or tax advice. Readers are encouraged to consult their accountant or attorney. Mention of a particular investment should not be considered a recommendation. Recommendations can only be made by determining investor suitability. Past performance is not a guarantee of future results and no investment strategy can guarantee positive returns. Annuities, Mutual Funds and Church Bonds are sold by prospectus only, subject to availability. Any rates quoted herein are subject to change. The S&P 500 and Dow Jones Industrial Average are weighted, unmanaged indexes.

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ON THE FOLLOWING TOPICS  
RETURN THIS TO:  
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E-mail: martin@martinnorthern.com**

**Please send information on these topics mentioned in your newsletter:**

- Please contact me regarding a free portfolio review.**
- I would like more information about the benefits of the following bonds:**
  - US Government Bonds**
  - Municipal Bonds**
  - Corporate Bonds**
  - Church Bonds**
- I would like information about the benefits of an Individual Retirement Account (IRA).**
- Please contact me regarding a free, no obligation consultation regarding the benefits of long-term care coverage.**
- I think these people would like to receive your newsletter. (Please provide name and address with zip code):**

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