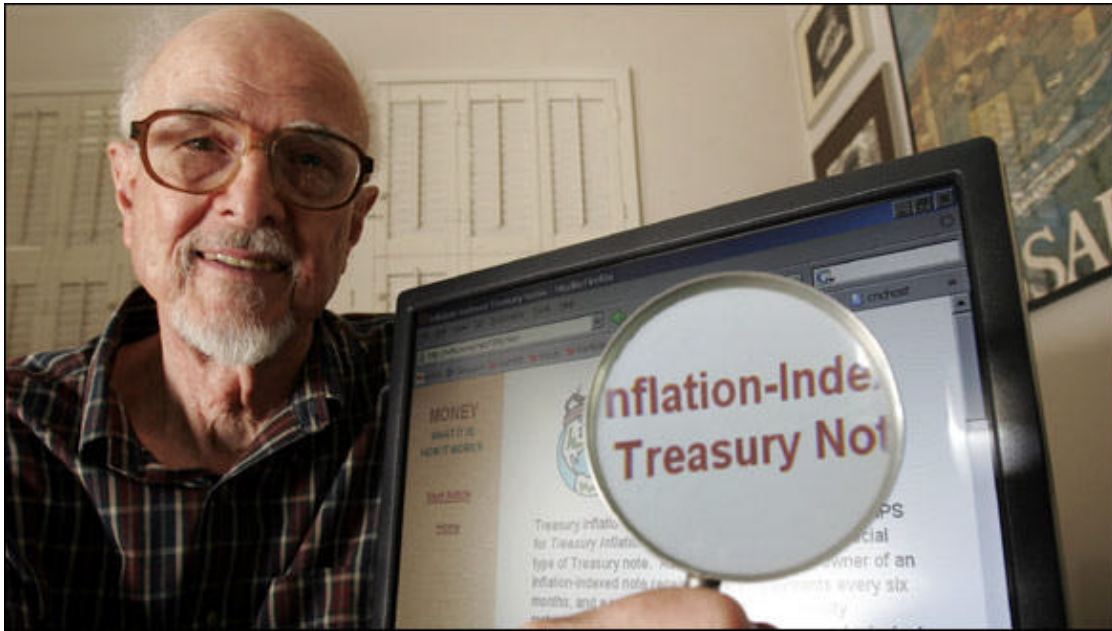


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Steve Goldstein for The New York Times

William F. Hummel, a retired aerospace engineer who has a Web site about financial topics, says he doesn't like 30-year bonds because they offer little growth potential.

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## The 30-Year Bond Is Back, and So Is Romance

By ELIZABETH HARRIS

FOR money managers on Wall Street more than for investors on Main Street, the return of the 30-year bond is like the rekindling of a close relationship.

"It's like having an old friend back," says Clifford A. Gladson, a senior vice president for fixed-income investments at USAA Investment Management. And David R. Glocke, a fixed-income portfolio manager at Vanguard, says that while he has no special feelings for the 30-year-bond, many colleagues do. "I've heard people refer to the 30-year in various tones," he said. "There's a love affair out there for some people."

Clearly, many fixed-income specialists have been strangely moved by the recent announcement from the Treasury that, after a four-year gap, it will begin to reissue the 30-year bond early next year. Before that pause, the bond had long served as the world's benchmark fixed-income instrument.

For Wall Street asset managers, the literal meaning of the bond's return is less portentous but still important: in pension funds, mutual funds and other large portfolios, managers will again be able to lock in yields of fully backed government debt for 30 years. Individual investors will be indirectly affected by these developments, but for their own portfolios, the availability of the 30-year bond will probably be much less significant. Bonds of shorter maturities may make more sense because they are less sensitive to changes in interest rates - and because few individuals are likely to buy and hold a bond for a full 30 years.

William F. Hummel, 82, a retired aerospace engineer from Los Angeles and an avid investor, says he holds nothing longer than two-, three- and five-year Treasuries in his portfolio.

Mr. Hummel, who writes about financial topics on his Web site, wfhummel.net, says that 30-year bonds provide little growth potential and that their average return is much lower than what a typical broad-based stock fund is likely to deliver.

"No doubt there are many individuals who like to roll the dice on long maturities," he said, "but I am not one of them."

At the moment, investors aren't being rewarded much for buying longer securities and taking on extra risk. Two-year Treasury notes are earning 4.03 percent, while 10-year bonds yield only slightly more, at 4.24 percent. Using Wall Street jargon, the yield curve - a graph tracing the yield of bonds of different maturities - is relatively flat.

Pension funds are a likely home for the new 30-year bonds. Many companies with traditional pension plans haven't invested adequately to pay for their future retirees' benefits, and there is a growing urgency to correct the problem. Companies in the Standard & Poor's 500-stock index with such defined-benefit plans faced an average shortfall of 11.5 percent in their pension funds in 2004, according to S.& P.

The Senate Finance Committee approved legislation last month that would require companies to fully fund their pension plans. Similar legislation is pending in the House.

"They're so grossly underfunded," said Sharon L. Stark, chief fixed-income strategist at Legg Mason Wood Walker. "It's not that there aren't any long maturity assets out there, but they haven't been able to get the yield that they need."

Daniel S. Vandivort, chief investment officer at Weiss, Peck & Greer, a subsidiary of Robeco Investment Management, said pension accounting-rule proposals being debated in Congress might lead pensions to increase the duration of the bonds in their portfolios. "Pension funds could say, 'Let's move our duration from five years to eight years,'" he said.

Heavy buying by pension funds could easily drive up the cost of the bonds, leading many bond mutual funds to hold off on purchases. Prices move in the opposite direction from yields, and high prices could lower an investor's absolute return.

That poses a quandary for many bond fund managers as they ponder whether to embrace the revived long bond, which was first issued regularly in 1977. "It does become part of my benchmark, so I'm certainly going to be interested," Mr. Glocke of Vanguard said, "although since it's been out of circulation, there's going to be a strong premium - so I may be reluctant" to buy it.

Even if many fund managers don't buy the 30-year bond at first, its mere existence may cause some to tilt their funds' durations longer, which could increase risk for investors. The reason for this possible shift is that most bond fund managers rely on the Lehman Brothers Aggregate Bond index as a guideline for duration, a measure of sensitivity to interest rate changes. When the new 30-year bonds enter the market, the index is expected to lengthen its duration. That may drive some bond funds to do the same.

In a time of rising interest rates, longer maturities carry the risk of losing more value. So investors with a long government bond fund in their portfolios should examine its duration, said Scott M. Kahan, a certified financial planner and principal of the Financial Asset Management Corporation in New York. "Now that managers can buy 30-year bonds, they may be forced to do that, and all of a sudden you're getting more risk than you've gotten before," Mr. Kahan said.

Longer-term government bond funds have an average duration of 8.8 years, according to Morningstar, which tracks mutual funds. But some funds exceed that figure widely: the Wasatch-Hoisington United States Treasury bond fund, for example, has a duration of 15.4 years, according to Morningstar.

Even if investors stay in a fund, Mr. Kahan said, they may want to make sure they hold a separate short-term bond fund to balance the long-term investment.

If demand is high for longer Treasuries, higher-yielding alternatives like corporate or mortgage-backed bonds may be even more appealing, said Brian D. Lowder, a certified financial planner and president of Brian D. Lowder Inc. in San Diego.

"You can always get a bit higher return on those alternate bonds," he said.

During the absence of the 30-year bond, investors turned to other securities, so the long bond may not be able to regain its old place at the center of the bond universe, some managers said.

The 10-year note is now pre-eminent, partly because the market for mortgage-backed securities revolves around it, Mr. Gladson said.

Ms. Stark at Legg Mason Wood Walker said, "There may be those who find the 30-year more appropriate than the 10-year, but since the market has adjusted, it's not likely that you will see the kind of sponsorship that you have in the past."

In volume alone, the 10-year note is unlikely to be supplanted soon. Last year, the Treasury issued about \$108 billion worth of 10-year notes. By contrast, it announced that it expects to sell only \$20 billion to \$30 billion worth of 30-year bonds for all of next year, in semiannual sales.

In the end, though, many managers said, the return of the 30-year bond will probably have less impact on the market than other factors. Continued rate increases by the Federal Reserve, as well as historically low yields on longer-term bonds, will probably play a bigger role in investors' portfolios, said Brian J. Brennan, a vice president and portfolio manager of the T. Rowe Price United States Treasury Long-Term fund.

"The overall dynamics and movement of the yield curve will be more powerful than the reissuance of the 30-year," he said.