Find Out Why Warren Buffet Told Fortune Magazine, “Bonds are amongst the most dangerous of assets.”

US Treasuries Revisited: Trend and Signal Agreement

Much like the covers of popular, financial magazines, sometimes the proclamations from many of Wall Street’s pundits and famed investors can provide similar reflections of what is comfortable to investors at a given time. We find these quotes, which often turn into the headlines of the day, useful in that they can be thought of as "certainty,” and in turn, forces us to think in a different direction. This is especially true when we look back at the Bond market of 2011. Last week we briefly touched upon this and the recent developments taking place in the Fixed Income space, especially as it relates to the US Treasury 30 Year Yield Index[TYX]. As you recall from this feature, *"It wasn't that long ago that the US Treasury 30 Year Yields closed at 4.63%, and "everyone on Wall Street" agreed they would have to go higher, perhaps considerably so. At least that was the less-than-subtle suggestion of a CNBC.com article, "Everyone on Wall Street Agrees with Bill Gross: Short Treasuries" from April last year."* As often is the case, the aforementioned headline of CNBC’s article, coincidentally pointed out a near top for the rates and the TYX, and, in effect, a near bottom for the Bond market.

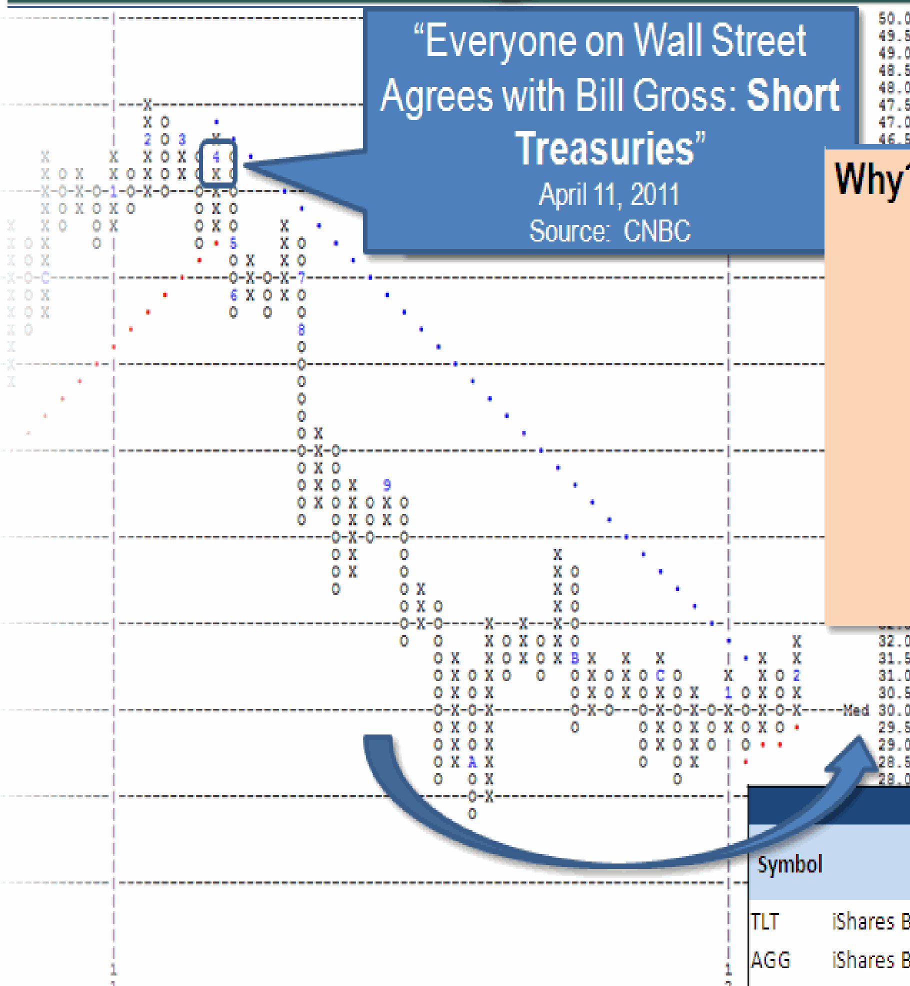
Since that article was published, we've witnessed US Treasury Bonds (returns based upon iShares Barclays 20+ Year Treasury Fund [TLT]) rise 30.05% while the TYX fell -32.63% (returns are through 2/13/2012). So while Longer Term Treasuries were avoided by Bill Gross and some of the major players on Wall Street, they turned out to be one of the best performing investments in 2011. Much like we witnessed back in March and April of last year, we are again seeing an abundance of headlines, proclaiming the current positions of many fund managers. Bill Gross is of course back in the mix, and in a recent Bloomberg News article, **“Gross Buys Treasuries While Buffet Says Bonds are ‘Dangerous’”**, he has “increased his holdings of Treasuries to the highest level since 2010” and “the purchases come a year after he banished U.S. government debt form the world’s biggest bond fund.” As you can see from the chart below, the recent purchases come after the long term trend of the TYX has turned positive... Warren Buffet, on the other hand, continues to avoid bonds, a stance he has maintained for over a year now, even throughout the bond rally of 2011. No matter what side you are on here; let the irrefutable law of supply and demand be the guide.

In essence, let the trend and the signals do the agreeing for you. Over the last couple of months, the trend chart of TYX has rebounded off its October low of 2.70%. In addition, since January, we have seen TYX put together a series of three consecutive buy signals, pushing it through the negative trendline at 3.15%. With the trend now positive, TYX's most recent move was a double top buy signal at 3.2%, offering additional evidence that longer term yields appear poised to trend higher.

US Treasury 30 Year Yield Index (TYX)

Tactical Fixed Income

"Everyone Agrees …"



"Everyone on Wall Street Agrees with Bill Gross: **Short Treasuries**"
April 11, 2011
Source: CNBC

Why?

- "Too much debt …"
- "Fear of Inflation …"
- "Foreigners exiting market …"
- "Too many years of low interest rates …"
- "Exit of Federal Reserve (QEII)"

Finally … Yields appear ready to trend higher

But … Bloomberg News (2/10/12)
"Gross Buys Treasuries While Buffett Says Bonds Are 'Dangerous'"

Performance Since 4/11/2011

Symbol	Index / Fund	Recent Price	Return (%)
TLT	iShares Barclays 20+ Year Treasury Fund	116.99	30.05
AGG	iShares Barclays Aggregate Bond Fund	110.41	5.49
TYX	US Treasury 30YR Yield Index	31.22	-32.63
TBT	ProShares UltraShort 20+ Year Treasury	19.11	-50.91
SPX	S&P 500	1342.64	1.37

Returns are through 2/13/2012 and do not include dividends