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Stamper Capital's Clark Stamper on Fed Rate Cut: Bond Comment

By Darrell Preston | 01-06-2001

Santa Cruz, California, Nov. 6 (Bloomberg) -- Stamper Capital & Investment's Clark Stamper in Santa Cruz comments on the Federal Open Market Committee's decision to cut the overnight bank lending rate a half percentage point to 2 percent. Stamper manages \$565 million of municipal bonds.

Though yields on municipal bonds with short maturities have fallen, municipal bonds that mature later now offer yields as much as 82 percent higher [than US Treasuries] on a before-tax basis. The tax-exempt status on interest on most types of municipal bonds makes them even more attractive, he said.

"If you are in a high tax bracket, munis are a screaming buy," he said. "They're huge." Investors don't have to be in high tax brackets to take advantage of higher yields, he said, though it adds to the benefit. "If you had gotten out of stocks and into municipal bonds three years ago, not only would you be happier now, but you'd be sleeping a lot better too," Stamper said.

Despite cutting its benchmark interest rate 10 times this year, to 2 percent from 6 percent, "not all of this is being passed on to consumers in the form of lower credit card rates or lower mortgage rates," Stamper said.

"That's why it hasn't jump-started the economy," Stamper said. "Japan has cut rates to nearly zero and it still hasn't jump started the economy."

"I am still worried that we're going to have a pretty tough recession," Stamper said. "It looks like we might be in a period of deflation because the prices of everything seem to be coming down."

Doubts about the economy and concern about deflation should create caution about buying high-yield munis, he said.

"It says you better stay away from high-yield munis, because they are going to get pounded," he said. "I don't think there is value in low-quality munis right now. Taking risk was the way to go in the 1990's, but now sticking close to high quality stocks and bonds is the way to go."

Muni funds have seen cash from investors, he said, though he believes some investors may not be well enough informed to buy them. "If you're recommending something that isn't in vogue, then people will laugh at you," he said.

"Obviously, the Fed is doing the right thing, but we just don't know if it is doing any good," he added.

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opinions, etc. are the essentially the core of this entire Bloomberg article. In addition, Mr. Stamper is frequently interviewed and quoted by Bloomberg and Bloomberg's reporters.

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