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"Stamper Capital's Stamper on California Tobacco Bonds, Trends,"

by Dennis Walters | 01-15-2003

Santa Cruz, California, Jan. 15 (Bloomberg) -- B. Clark Stamper, who oversees $900 million in a high-yield municipal bond fund at Stamper Capital & Investments in Santa Cruz, California, comments on why California needed to pay a top 7 percent on $3 billion in bonds backed by tobacco settlement payments. The Golden State Tobacco securitization Corp. priced the bonds today.

On more sales of tobacco bonds to plug budget gaps: “They're just a steal but everybody's at their limits" for tobacco bonds because many funds can't allocate more than 5 percent of their holdings to a single credit. The tobacco debt, even when sold by different states, is treated as a single credit because of the backing by national settlement payments. “It's just a matter of supply making it very difficult" to sell the bonds without added premiums.

On how the sale affects secondary market: “This deal has really backed up the whole tobacco market." The looming sale in recent days helped push yields higher by four-tenths of a percentage point on existing tobacco bonds sold by issuers such as Louisiana, Iowa, and New Jersey, Stamper said. That made some of those bonds more attractive to him in the secondary market than California's sale.

More states plan to sell tobacco bonds to plug deficits and “all these other issuers are going to be disappointed" at the yields California had to pay. Investors said California's sale also needed higher yields because the state plans yet another $2 billion tobacco sale in April.

On why investors find the bonds attractive: The higher yields come with “less risk than the stock market" considering the debt is rated A or A+. “For long-term buyers it's a slam dunk to buy and hold," especially wealthier investors. A tax-free bond yielding 7 percent translates into a 12.57 percent taxable equivalent return for a California resident in the top federal and state income tax brackets.

Editor: Pittman.

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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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