BOND FUND REPORT

Municipal Focus: Venture Muni (+) Plus

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The Santa Fe-based Venture Muni (+) Plus Fund, run by Clark Stamper, has been the number one performing municipal bond fund in 1994. The Venture fund is essentially chartered as a high yield (junk) municipal fund and typically holds high percentages of below investment grade paper. Despite this more aggressive approach, Stamper has been able to pull off a 1.07 percent total return year-to-date while all other funds are posting negative returns. Compared to the BFR average total return year-to-date, which stands at -5.35 percent, and the Merrill Lynch 12-22 year municipal index, which stands at -5.78 percent, his fund's performance is extraordinary.

The first quarter of 1994 was a disaster for the municipal market and for most funds. Those managers who were not taking defensive measures, such as building cash, shortening durations and adding cushion bonds, took the brunt of the sell-off. Those who were fortunate enough to have taken steps far enough in advance, however, were able to salvage their returns. Stamper became defensive early on.

"I watch the utilities index very closely as a key for the municipal market, especially because I own a number of municipal utilities. When the utilities broke from the peak in September 1993, it gave me a clue that there would be a problem ahead. I had been very defensive in 1993 and when the utilities peaked, and then the junk market peaked ahead of the muni market, I became even more defensive," says Stamper.

Stamper indicates that he built up some of the cash positions. But the real key was being able to trade up to high coupons, and to buy short-maturity paper and short-call paper, which gave him 7-9 points of downside protection. Stamper estimates that the net effect of the portfolio repositioning was to bring the duration down to around three years with an average maturity of about 16 years. In addition, he restructured the quality of the portfolio. "When I first started, I had concentrated on the 'BBB-' area, but then spreads tightened dramatically. Late last year I sold much of that paper and upgraded the fund's credit quality to 'A+'. This again proved to be a timely move for Stamper as the spreads widened out on the low-grade paper in early 1994.

Since his fund restructuring in late 1993 and early 1994, he has sold many of his cushion bonds, which lost much of their downside protection after the first waves of decline. He has replaced them with new cushion bonds as well as some discount bonds that he felt would have upside potential. "I did a lot of bottom picking after things settled out, but I was very selective and not in any hurry."

Liquidity and size an issue

"I think that liquidity is currently the main problem for the market, not inflation. The problem is that there is just too much supply and not enough demand out there. When the market plummeted to its low in late March, I was out bidding, but there was hardly anyone else bidding. I think that the liquidity problems could easily come back."

With respect to the size of his portfolio (currently $187 million), Stamper believes that being big is an advantage in an up market, but a disadvantage in a down market. He believes his 300 positions, which are all relatively small, allow him to maneuver in tight and soft markets. He also indicates that his success in 1994 was not because he hit a home run with one or two issues, but because he had "a whole pile of singles."

With 300 credits to monitor, one would expect to find a large staff backing Stamper. Surprisingly, he only has three people working on the portfolio, and each has other responsibilities, such as running the money market. He relies heavily on systems to monitor the portfolio, but does most of the research himself. He suggests that because in some shops you have to have the analyst, trader and manager all agree before buying a position, the process gets slowed down. Since he is all three rolled into one, he says he can react much faster.

Stamper generally buys lesser known names, but liquidity is still important. While an off-the-run name almost implies less liquidity, Stamper has proven, at least until now, that the strategy works. "I don't buy too many state-specific issues, except maybe for a state with good liquidity, like New York, but on the other hand I've avoided California altogether. I own almost 21 percent in housing bonds and a lot of lower rated IRBs. In general, I have bought mostly off-the-run names because that's where you get the best yield per credit quality and the best upside and downside characteristics. Most of my non-rated bonds (currently about 29 percent but as high as 40 percent in the past) are IDRs backed by publicly traded companies such as a utility or major corporation, not the small names where you can't get a bid. I also own about 23 percent insured bonds in anticipation of the liquidity problems."

Finally, Stamper says he doesn't buy derivatives for the muni products, although he has bought them for other portfolios. He suggests that the products were far too rich and "investors were stupid to buy them."

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Stamper Capital & Investments, Inc. has been the sub-adviser to this Fund since October 1995 and B. Clark Stamper, our President, has been its Portfolio Manager since June 1990.

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