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Stamper Stands Tall Amid Fallen Bond Funds

Venture Income Plus Gained 1.65%, Muni Plus 2.29% in '94

By Doug Rogers | 01-25-1995

Clark Stamper had the right game plan for racking up above-average fixed-income returns in 1994: defense.

The portfolio manager of Venture Income Plus and Venture Municipal Plus heeded several signs that his positions were threatened in 1993. Interest rates started rising late that year and the Dow Jones utility average peaked in September.

"A lot of people didn't think utilities were a good proxy for the bond market anymore, but I watched anyway," Stamper said. "Then Treasuries peaked in October, junk bonds in December and munis in January."

Stamper also noted that cyclical and retail stocks declined about two or three weeks before most of the high-yield market "figured out what was going on."

Another factor that bothered Stamper was that yields for lower-quality issues weren't running as high as usual over better-quality issues. That prompted him to raise the credit rating to an A from BBB- in Muni Plus, and to BB from B in Venture Income Plus.

"That turned out to be the right thing to do because credit quality spreads widened in 1994," he said.

In addition, of the 40 "blowup" troubled issues in 1994, Stamper says he owned only three as a result of the quality upgrading.

For the year, Income Plus, which has $57 million in assets, eked out a 1.63% return for 1994, fourth of 91 funds in the corporate high yield objective tracked by Morningstar Inc. That fund carries an A grade from Investor's Business Daily for its 1992-94 total return of 47.9%. It also has a three-star rating from Morningstar.

Muni Plus, with $143 million in assets, posted a return of 2.29%. That was third out of 363 funds in its objective. It also helped win the fund a five-star rating from Morningstar.

High-yield fund fell an average 3.85% last year, while national municipal bond funds declined 5.18%.

Stamper said he didn't have any exposure to Orange County, which declared bankruptcy amid $2 billion in losses in its highly leveraged investment funds. "California normally trades rich and I usually don't own rich areas," he said.

He also looked for cheap, high-yielding issues in the aftermath of the bankruptcy filing, but couldn't find any bargains, he said. "I was bidding aggressively in the low 40s but the ask was 80," he said.

One reason the bargains hadn't materialized, Stamper figures, was many taxable high-yield investors were keeping a sharp eye out for opportunities, which helped prevent values from getting distorted.

Stamper remains bearish on the market and is keeping his portfolios in a defensive position. He therefore could under-perform in any sharp rally.

But noting that the three-month-old rally in Treasuries is choppy and selective, he doesn't expect progress to extend for more than a month. "Then rates should get higher on the long end, getting back to 8.5% by the end of the year until the economy slows down."

The spread between high- and low-quality issues would widen if the stock market breaks lower, he says. Thus his portfolios would likely hold up better amid a weakening market.

Stamper tries to assess political and economic events to form an opinion on where the market is headed. He considers the Republican's Contract with America anti-stimulative.

While the push for a balanced budget and congressional accountability would be good for the economy in the long run, in the short run it would likely push the country into a recession by 1996, he said.

Since the markets normally anticipate recession, they should start moving lower by May, Stamper says.

That contrasts with many analysts' view that the Federal Reserve is near the end of its tightening phase, which should bring a robust second half after a shaky first.

Stamper, 39, says he thinks the bond market is likely to outperform a correction-prone stock market this year. "I would rather own a market that has just gone through its worst year this century than one that is still overvalued," he said.

Adjustable-rate securities have some good bargains and now make up 10% of Income Plus' portfolio, Stamper says.

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