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A TIMELY INVESTMENT STRATEGY FOR CERTAIN PROFITABLE CORPORATIONS

To date, the yields on US Treasury notes in the one to five year maturity range have reached their lowest levels since the 1960's. The future may bring unprecedented supply of US debt to the marketplace. It is very reasonable to question if the current rate levels are sustainable. According to Bloomberg, there are over 60 US Treasury issues in this maturity range. Less than five are trading at a discount to par; the rest trade at significant premiums to par.

Opportunistic corporate investors can implement an investment strategy that will benefit from a normalization of interest rates and the slope of the yield curve. This can be accomplished by shorting US Treasury notes today with the expectation to cover the short position when rates hit higher levels in the future.

This investment strategy does not require a substantial amount of capital. It is executed every day by sophisticated investors and has been for decades.

There is a very interesting consequence to this investment strategy which should significantly benefit corporate investors that have non-deductible capital losses. The strategy should generate both capital gain (the difference between the short sale price and the cost to repurchase the bonds) and net interest expense (the difference between the coupon of the bond and the interest income earned on the short sale proceeds).

Thus, by implementing this timely investment strategy profitable "C" corporations should be able to currently monetize otherwise non-deductible capital losses by effectively converting those losses into ordinary expense which should be currently and fully deductible against ordinary income.

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