KORNFIELD
INVESTMENT MANAGEMENT
Registered Investment Adviser
Division of Kevin Hart Kornfield & Co. Inc.
Originally Established 1986

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Dear Clients,

Our greatest challenge at this time has to do with almost 0.00% bond yields. In other words, bond buyers are basically earning nothing on investment grade bonds that mature in our target area of 1 to 7 years. For example, Alphabet (parent company of Google) just priced a 5-year corporate bond to yield 0.45%.

Instead of raising taxes to pay our bills throughout the robust recovery after the 2008 recession, the US Treasury issued more and more federal debt. Now, when we need to borrow, the new debt is going on top of the already record amounts of USA debt. You might think there would be high interest rates due to a high about of money being borrowed.

The strange and worrisome twist in our current financial affairs is the fact that the US Federal Reserve (FED) has been able to drive down interest rates for investors to this zero % area. The FED does not issue debt and then use that borrowed money to buy back bonds. The FED simply goes into the open market via the major brokerage firms and pays for purchases with newly created US dollars. Some other countries are doing similar operations. I believe this is called Modern Monetary Theory (MMT). The US Treasury issues debt and then the FED buys a lot of US Treasury and US corporate debt with printed money. The FED has always been active doing things like short term additions to the money supply. But lately the FED has dramatically ramped up their activities. How has printing money worked out for various South American countries in the late 1900's and for Zimbabwe in the early 2000's? The MMT folks have a plan to offset the printed money at a later date with no negative impact to the economy. May that work out, AMEN.

Meanwhile, our FED is competing with our clients to buy treasury and corporate bonds. We are at another inflection point. In the 1980's we were tempted by junk bonds which were used to borrow money for takeovers of large corporations. Then in the 1990's we had high yield bonds which were issued by highly leveraged developers and savings and loans who sought riches in real estate. At each one of these inflection points when investors sought higher returns than traditional lower yielding choices, many investors were left with tears.

In our current environment there is a wide assortment of risky income alternatives. There are many airline, energy, and retail bonds with attractive yields, but their weakened credit worthiness may lead to financial losses.

For our part, we are watching for opportunities. However, as with past inflection points, we want to protect principal and not get caught with long maturities with low yields. Having said that, after actual or near bankruptcies, many companies reorganize themselves into interesting and financially improved investment candidates. Companies are living entities that generally want to survive and recover to a productive life.

Recently NASA launched a new mission to Mars. AeroVironment, Inc. (AVAV) is a stock that is held in most of our client accounts. They made the helicopter that is on board and will be used on Mars.

As always thanks for your business and for your referrals. Please call with any questions or good jokes.

Wishing you good health,

Kevin

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