

Current Accounts

Risk looms in the Treasury securities market

July 17, 2009

By: Mike Seemuth

Trying to end the recession is a monumental task for the federal government, but selling Treasury securities to finance the fix could be even tougher.

Some financial advisers in South Florida already are steering investors away from Treasury securities, concerned that an oversupply will make them less valuable.

"I'm not very bullish on U.S. Treasuries," said Coral Gables investment adviser Cathy Pareto. "Most of the bond funds I'm now employing in client portfolios are short-term global funds, and that would include government and high-quality corporate [bonds]."

Investors can redeem their entire initial investment by holding Treasury bonds until they mature. But investors may get less than 100 cents on the dollar if they have to sell prior to the maturity date, especially if the cost of borrowing is increasing. As interest rates rise, bonds issued at lower rates lose value.

Fear of losing money in other types of investments has fed strong demand for Treasury securities. But the trend as depressed yields so much that interest rates on future Treasury issues may have nowhere to go but up. The yield to maturity on 10-year Treasury notes has ranged in recent weeks from 3 percent to 3.5 percent.

"There is a reason that Treasuries are trading at very low rates, and that is the fear trade. You're paying a very steep cost for the certainty of getting your money back," said Lane M. Jones, chief investment officer at Evensky & Katz Wealth Management in Coral Gables.

"We certainly are cautious of Treasury bonds as an investment right now," Jones said. Buying investment-grade corporate bonds might be a better bet because "I don't think the auctioning of Treasuries is going to slow anytime soon," and in the future, "what does that do to Treasury yields? Yields will have to rise from these menial amounts."

One reason for concern about the U.S. Treasury Department's big appetite for borrowing is the Federal Reserve Bank's big commitment to buy Treasury securities, Jones said. "It's a very odd thing that's going on," he said, "because the government is on both sides of the trade, right? They're issuing debt in record quantities at auction, but yet they're still participating in the debt markets, trying to support them by buying. Don't ask me how it's supposed to work."

Merger and Acquisition activity may pick up

The pace of business mergers and acquisitions may be accelerating as the economy idles.

In what could be the biggest sale of a South Florida company this year, Coral Gables-based skin-treatment manufacturer Stiefel Laboratories accepted a \$2.9 billion cash takeover bid from GlaxoSmithKline.

The promise of increased efficiency was a major driver of the bid: Stiefel and Glaxo believe they can deliver annual pre-tax savings of up to \$240 million by 2012 through the combination of manufacturing and administrative operations. The transaction is expected to close before the end of September.

Florida Public Utilities is set to shed its independence by year-end. The West Palm Beach-based distributor of electricity and natural gas has an agreement to merge with Dover, Del.-based Chesapeake Utilities. About two-fifths of a half share of Chesapeake would be exchanged for each share of FPU. The deal is valued at \$74.6 million or \$12.20 for each share of FPU, which has traded as low as \$8 in the last year. The companies expect to complete the stock swap in the fourth quarter.

This week, Miami-based Noven Pharmaceuticals signed a definitive merger agreement with Hisamitsu Pharmaceutical. Their combination is subject to the Japanese drug company's successful completion of a cash tender offer, starting July 28, to buy all of Noven's stock for about \$428 million, or \$16.50 per share. Noven shares have traded for as little as \$7.54 in the last 12 months.

Other companies in South Florida have sold off parts of themselves this year, among them HearUSA. The West Palm Beach-based operator of about 180 hearing care centers in the U.S. has sold its Canadian unit for \$23.7 million. Divestiture of the unit with 23 hearing care centers in Ontario, Canada, allowed HearUSA to pay down debt and to concentrate resources on domestic market opportunities, the company said.

Not all of the mergers and acquisitions are happening without a hitch, however. Employees of Stiefel are seeking class-action status in a federal lawsuit alleging that they were misled into selling shares back to the company prior to the Glaxo takeover bid. And natural gas distributor Energy West, which owns 6.4 percent of Florida Public Utilities' shares, has asked FPU for a mailing list of other shareholders so it can urge them to vote against the proposed merger with Chesapeake



Lane Jones

Utilities. Richard Osborne, chairman and chief executive of Montana-based Energy West, claimed in a letter to FPU directors that they ignored his company's offer to acquire all FPU stock for \$12 per share.

Local inflation ebbs as hourly pay advances

Consumer prices in South Florida rose from April to May but remained below the level of a year ago.

The U.S. Bureau of Labor Statistics reported Wednesday that its metropolitan index of consumer prices in South Florida rose in May by 0.5 of a percent from the April level.

The South Florida price index declined 2.1 percent in May from May 2008. In the average U.S. city, the comparable year-over-year decline in consumer prices was 2 percent.

State data show that the hourly pay rate in South Florida increased while the local inflation rate dropped, due largely to lower gasoline prices than a year ago.

In the first quarter of 2009, median hourly pay in Miami-Dade, Broward and Palm Beach counties rose 1.3 percent, compared with the same period last year, the state Agency for Workforce Innovation reported.

Data gathered by the state agency show that median hourly pay in the January-March period ranged from \$14.82 in Miami-Dade and \$14.93 in Broward to \$15.33 in Palm Beach.

Preview

ECONOMIC INDICATORS: The Conference Board will release its June index of leading economic indicators on Monday. The index increased 1.2 percent in May from April, the second consecutive sequential increase after a 0.3 percent decline in March.

HOME SALES: The National Association of Realtors will report June sales of existing homes on Thursday. Sales of existing single-family homes, townhouses, condominiums and co-ops increased to an adjusted annual rate of 4.77 million in May, up 2.4 percent from 4.66 million in April, but 3.6 percent lower than the pace of 4.95 million in May 2008.

CONSUMER SENTIMENT: The Reuters news agency and the University of Michigan will release their July measure of consumer sentiment on Friday. . The monthly index in June rose to 70.8 from 68.7 in May. It was the index's fourth consecutive sequential increase.

Your Name:

Comments:

Type your comment here.

Search the [archive](#) for more stories.

Back To:

- [Today's top stories.](#)
- [More business stories.](#)
- [More legal stories.](#)

Incisive Media takes copyright infringement seriously. YOU MAY NOT DISTRIBUTE THIS STORY, ELECTRONIC OR OTHERWISE, WITHOUT

OUR PERMISSION. You may print or purchase this story from our archives for your personal use only. In order to obtain reprint permission rights, please contact Sue Viera at 305-347-6621 or 800-777-7300 ext. 6621. If you need a subscription, please call 1--877-347-6682.