

# Another red flag as veteran bond fund manager raises white flag

*Market volatility and minuscule margin for error force Cowley from long-only investments; thrill is gone*

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A major bond-fund manager has thrown in the towel on long-only investing. The move is the latest warning to fixed-income investors, who have doubled the assets in long-only bond funds since the financial crisis, to more



than \$2 trillion.

Stewart Cowley, head of fixed income at Old Mutual Asset Managers in the U.K., announced his “retirement” from long-only bond investing Thursday in an editorial in U.K. publication *Citywire Wealth Manager*.

“Doing this job has become more than difficult,” wrote Mr. Cowley, who manages the \$1.3 billion Old Mutual Global Strategic Bond Fund. “It’s become impossible to guarantee that, given we are all fallible human beings and not magical prodigies, we can put a positive return on the table for our clients for anything more than a passing moment in time. And even if we do, it might just be because we got lucky.”

According to Mr. Cowley, the reason long-only bond investing has become so hard is that with interest rates at or near record lows, the margin for error has essentially vanished.

In the 1980s, when government bonds yielded double digits, interest rates could move as much 2% to 4%, depending on the bond’s maturity, without resulting in a loss of capital. That cushion is 15 basis points.

“Once upon a time, your margin for error was vast, but now it is tiny — if yields rise by more than 0.15%, then even over a one-year holding period you will start making a loss in absolute terms,” Mr. Cowley wrote.

In addition, interest rate volatility has increased because of the risk-on, risk-off macro-investing environment. As soon as economic news turns threatening, money tends to rush into U.S. Treasuries. That, in turn, drives yields lower. As soon as the fear passes, funds flow back to riskier assets, pushing yields higher.

“For me the thrill has gone, because now the consequences of being wrong, and the probability of being wrong, are too great to reliably invest our clients’ money in a sensible way to create systematic positive returns,” Mr. Cowley wrote. “I’m not ruling out the odd occasional long-bond investment, but that is what it will be — occasional, opportunistic and fleeting.”