

# GRANT'S

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## Glimmers of real yield

As we go to press, TIP, the largest exchange-traded TIPS fund, with \$26 billion under management, offered an inflation-adjusted yield of 1.78%, the highest such real rate in a dozen years. Certainly, it's not nothing.

Treasury Inflation-Protected Securities aren't every inflation-phobe's cup of tea. The mechanics, as simple as they are, somehow seem counterintuitive. The coupon is fixed; it's the principal that grows with the CPI, so the investor winds up earning the immovable coupon rate on a growing principal value—and, in the case of a tax-paying investor, paying tax at the ordinary rate on that inflation-induced growth in principal, which you don't even see until maturity. "Phantom income," they call it. It makes you want to call your congressman.

Anyway, it's been a rugged year for TIPS. The long-duration, 15-plus-year Pimco TIPS exchange-traded fund, LTPZ, is down 35.44%; the broad-duration iShares TIPS Bond ETF (with the aforementioned ticker, TIP), by 13.26%.

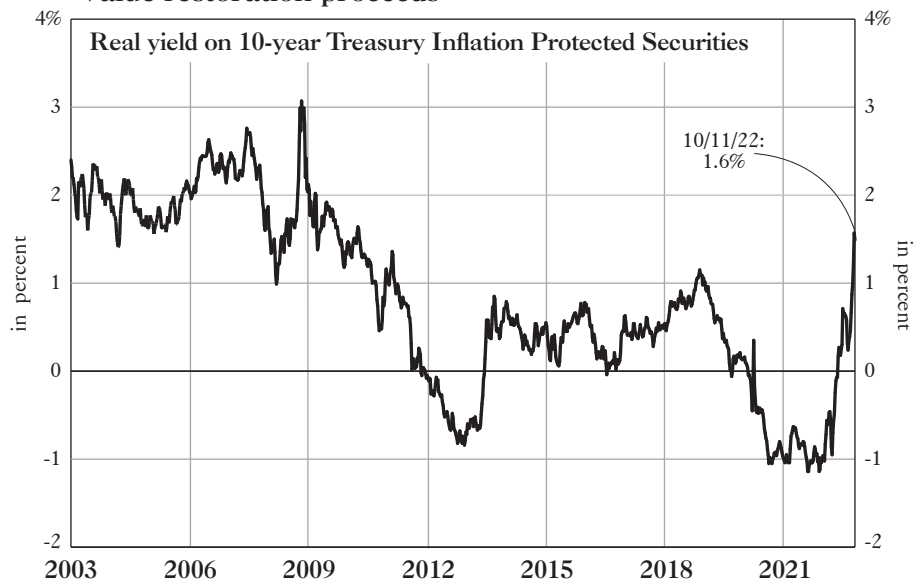
Many a discouraged investor has taken his business elsewhere. The TIP fund, as Karen Veraa, head of iShares fixed-income strategy, tells colleague James Robertson, Jr., "has seen about \$5 billion of outflows this year. And we've seen a rotation from our broad

TIP fund into our shorter-maturity fund [STIP] as people were worried about the interest rate risk but still wanted some inflation protection in portfolios. And then we cut the management fee on STIP down to three basis points to try to make it really cost-competitive."

It's good to see the value-restoration project proceed at the pace it has. As recently as April, Robertson observes, the 10-years TIPS was priced to yield less than zero. From less than zero to 1.6% in six short months holds out the hope for even more.

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### Value restoration proceeds



source: Federal Reserve Board of Governors

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