March 30, 2009 - "You mentioned in the Q&A below moving into Ginny Maes. I currently have considerable money in Pimco Total Return which I think was in cash last fall when the bank crisis hit the news but has recently moved into government backed mortgages. I was wondering what you think of Pimco Total Return and how it compares with what you are doing with Ginny Maes. Also, how vulnerable are Ginny Maes to interest rate fluctuations and does one need to withdraw funds when the economy recovers and interest rates increase? With all the turmoil in the economy, I will sure miss your shows. Thank you."

ANSWER: I have found that the PIMCO Total Return fund is not very reliable. Bill Gross tends to trade this fund, its costs are rather high, and not all of the trades are profitable. It is only during the last several months that Gross has gotten into the Mortgage Backed market in a big way.

There are two better choices for Mortgage backed securities: 1. The PIMCO GNMA fund; 2. The Vanguard GNMA Fund. The PIMCO is not as over bought as the Vanguard fund. However, PIMCO expenses are a lot more than Vanguard.

A better choice is to buy the GNMA, FNMA, and FHLMC securities directly instead of in a fund. This will provide you a ladder of maturing principle every month - a natural maturity ladder - and you will not have to worry about the risk of interest rate volatility.

When the 10 year Treasury interest rate begins to rise, mortgage rates will rise, and these GNMA funds will lose value. Plan to get out of this fund before rates begin to rise, if you can. Don't expect interest rates to rise in the next 6 months. When the economy begins to grow, interest rates will rise. I expect negative growth - deflation - for the next 12 months, and perhaps longer.

I hope this helps, and answers your question.