

Frank's portfolio weathered stock-market tumble

Conservative investments were the key

By Susan Milligan, Globe Staff | June 22, 2009

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WASHINGTON - Representative Barney Frank may have failed to prevent Wall Street from pursuing its high-risk investment behavior, but in his personal finances, the House Financial Services Committee chairman has taken his own tough advice.

While other lawmakers have suffered declines in their personal investments because of the plummet in stock prices, the liberal Massachusetts Democrat has fared better by being conservative in his own finances, putting his \$896,000 investment portfolio largely in state and local municipal bonds, according to a review of local lawmakers' financial reports.

"It's not just coincidence - it's putting my money where my mouth is," said Frank, who has slammed Wall Street for high-risk financial practices many lawmakers blame for the ailing economy. "I made money while other people lost money."

While the stock market plunged by 28 percent last year, Frank's municipal bond investments earned him a steady, reliable rate of interest - for a total of \$42,000. He also took in more than \$10,000 in capital gains from his Calvert Social Investment Fund, his only stock investment fund.

Other members of the Bay State's congressional delegation appeared to have been hurt by the plunge in the stock market last year. Although the House financial disclosure reports do not detail exactly how much members own in stocks and bonds - the values are reported in wide ranges - an examination of the earnings lawmakers reported from their investments suggests they took a hit.

Representative Edward Markey, for example, reported taking in between \$14,314 and \$42,700 in interest and dividends in 2007, but just \$8,312 to \$25,000 last year. Representative Stephen Lynch, Democrat of Boston, also saw a drop in income from investments. Many other Massachusetts lawmakers' investment incomes remained relatively stable, although the financial disclosure forms do not provide enough detail to determine how much the lawmakers' portfolios suffered last year.

"Representative Markey and his wife have seen the same type of losses in their mutual funds as many other Americans have experienced last year," said Daniel Reilly, a spokesman for the Malden Democrat. He noted that Markey does not personally choose his stocks, which are made through various investment funds.

Frank provided far more detail about his personal investments than is required by law, attaching account summaries provided by Smith Barney, his brokerage and asset management firm. The congressman said he attached the statement because "it's easier" than typing in a list of investments and transactions, although the extra disclosure gives the public more insight into the personal monetary decisions made by one of the most powerful figures overseeing financial services.

The Newton Democrat's overall investment portfolio dropped from about \$1 million at the end of 2007 to slightly less than \$900,000 at the close of last year - but the drop is mostly attributable to his decision to sell some bonds, not a drop in return.

While a stock purchase gives an investor a piece of a company, a bond is an investment in a company or municipality's debt. Some investors prefer to put their money in stocks, since the long-term growth potential is higher, noted Shannon Zimmerman, senior analyst at The Motley Fool, an investment advice firm.

But bonds deliver twice-yearly payments from a set interest rate, making them a reliable source of income insulated from the fluctuations in the stock market, said Todd M. Millay, managing director of Choate Investment Advisors.

Municipalities rarely default on their bonds, since - unlike corporations - they can raise taxes to pay them off. Localities also know that if they default, they may have a very difficult time securing bonds in the future, Millay said. "They're not going to go out of business," he said.

Frank's focus on municipal bonds largely spared him from the fallout from the stock market drop. Further, since interest from municipal bonds - unlike stock dividends and capital gains - are tax-free, Frank avoided a higher tax bill, as well.

"He knows he can sleep well at night, because if these guys pay, he's fine. And these guys pay," said Michael Toporek, chief investment officer with Brookstone Partners Asset Management.

Municipal bonds, issued by localities to raise money for infrastructure repair and other public projects, can produce income in two ways: through a sale of the bonds, and through the interest payments the bond issuers pay investors.

People who invest in such bonds can either hang onto them until they reach maturity (often a period of 20 years), collecting the interest on them during those years, or they can sell them. Since the bond market changes depending on the economy, sellers often get a different price than the original value of the bond.

Frank did suffer some long-term, on-paper losses on his bonds - less than \$5,000 - because he sold some bonds for less money than he paid for them. Had Frank hung onto the bonds a bit longer, he might have made money from the sales, Zimmerman said. But the loss was far outweighed by the interest income and tax advantages Frank secured by his investment strategy.

In fact, Frank said, he made too much money on municipal bonds, whose interest rates he said were too high, given their low risk. Frank is preparing legislation that would make some municipal bond investments less profitable, easing financial stress on some lower-income states and communities.

Municipal bonds are rated in a different way than corporate bonds, and communities tend to be slapped with higher interest rates, despite the fact that municipalities rarely default, said Representative Michael Capuano, a Somerville Democrat who is working on the legislation with Frank. (Capuano and his wife earned about the same in interest and dividends last year as they did in 2007, according to his financial disclosure reports, going from a range of \$1,205 to \$4,100 in 2007 to a range of \$1,414 to \$6,700 in 2008.)

Further, lower-income communities are seen as higher-risk, and are often forced to pay more to float municipal bonds than wealthier communities, said Capuano, the former mayor of Somerville. Frank and Capuano have proposed rating municipalities and corporations the same way, a change they said would bring down municipal bond interest rates.

The risk ratings "should be solely on the basis of statistically sound measure," such as making payments on time, Capuano said. "It shouldn't be on the basis of [the wealth of] your population." ■