

A Head for Numbers

By Jerry Kerns



Tad Rivelle

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Tad Rivelle has always enjoyed the quantitative side of life. He studied physics (at Yale) as an undergraduate and applied mathematics (at the University of Southern California) in graduate school. When it came to making a career, it was the quantitative aspects of fixed-income analysis that attracted him to bond investing. "Maybe it lends itself a little bit more directly to analysis than equities do," he says.

As chief investment officer at MetWest, Rivelle formulates the firm's investment strategies around his long-term economic outlook. He's been busy. MetWest's funds largely came into 2008 positioned defensively and were able to take advantage of opportunities as they arose in the financial crisis. At Metropolitan West Total Return Bond MWTRX, for example, management deployed its large stake in Treasuries to sectors that saw huge price declines, such as agency mortgage-backed securities. The team at Metropolitan West High Yield Bond MWHYX made timely moves into less-cyclical sectors and away from troubled areas.

This recent success is nothing new for Rivelle. MetWest Total Return's team, of which Rivelle is a member, was named our 2005 Fixed-Income Manager of the Year. The fund is also a Morningstar Fund Analyst Pick.

1 What's been the most effective government action in response to the financial crisis?
Taking care of the banks and putting additional regulatory capital onto their balance sheets.

2 What's been the least effective?

The incoherent ways various enterprises were handled: Bear Stearns this way, Lehman that way, Washington Mutual a third way, AIG yet again. It was very puzzling and **difficult for investors to understand what the government's plan of attack was.**

3 What's the biggest challenge of investing in a market where the government has an increasingly heavier hand of influence?

It's changed the way a lot of the sectors of the marketplace have to be analyzed. Take, for example, the \$50 billion, plus or minus, per month of agency mortgages that the Federal Reserve is buying and its commitment to seemingly buy up to one quarter of the entirety of the market for agency mortgage-backed instruments. It **changes the whole calculus.**

4 In what way?

The **amount of downside volatility is probably extremely limited**, yet there's a very nice yield spread.

5 What concerns you the most in the near term?

That despite mobilizing as many resources and forces as the Fed and Treasury have, **the problems turn out to be too big for them to manage.**

6 What is your long-term worry?

In being so concerned about the problems of today, we leave the economy with an **inflationary problem to deal with down the line**—which is a probable outcome.

7 In which corners of the bond market are you currently finding opportunities?

Places where principal is most protected, including certain areas of the investment-grade corporate bond market, some of the triple A features and sectors of commercial mortgage-backed securities, and some residential mortgages, as well.

8 What's the biggest investing lesson financial advisors should learn from this crisis?

The lesson for all investors is to remind ourselves that **the correct time to be reducing risk level in a portfolio is when it's counterintuitive** and everything seems to be going extraordinarily well.

9 What's the biggest mistake most fixed-income investors make?

The **tendency to change course during a period of market crisis**. You should be thinking about a portfolio from the standpoint of being able to weather a storm, and once in the middle of the storm, to not necessarily re-evaluate everything that made sense before.

10 Name a book to help us understand these times.

Devil Take the Hindmost: A History of Speculation, by Edward Chancellor. It's **about the cycles of market speculation** and the deleveragings that inevitably follow them.



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