LB396

PRESIDENT: Recognize Senator Duis. We're discussing Senator Carpenter's first amendment here.

SENATOR DUIS: I have a question of Senator Carpenter if I might please. Senator Carpenter, in the bond market the bond of course is purchased for quite a length of time as a general rule, and if the interest rate goes up and you get a bond at a lower rate of interest the bond amount goes down because of the actual market. May I ask what situation does the investment council have that they can dispose of bonds so that they keep current with the interest? Is the market sufficient in the bond market that they are able to exchange bonds if they get caught with the bond in a declining position because the decline in the bond generally makes up for the interest increase.

SENATOR CARPENTER: What you say is true. But the bonds for example you have to figure the interest you are going to receive by the value of the bond at the time you buy it, presuming you don't buy a new issue.

SENATOR DUIS: Right

SENATOR CARPENTER: So to the extent that it prevails at that particular time you buy it, you add the combination of the amount you buy the bond more or less its face value plus the interest and that makes the total rate you are going to receive through the life of the bond. So actually in my judgement if that fact was say 8% at the time you bought it you would get 8% until the thing matured. Now you might buy a bond for example that has already been issued and has matured a day or two or three or four years. A new bond may have fifteen, twenty or thirty years. But you know in a bond if the company is solvent and those catagories they generally are, that you are going to get that rate of interest throughout the life of that bond which means you are not concerned about the appreciation - up or down.

SENATOR DUIS: This is the point I'm trying to get at- is to explain to the body that the bond the appreciation of the bond maybe in the degreasive interest will make that bond always worth the same amount of money -- you can't lose money. In other words you've got a chance of making money but your chance of loss is less. Is that correct?

SENATOR CARPENTER: That is correct.

SENATOR DUIS: Thank you.

SENATOR CARPENTER: Now it's just like a government bond. You go to the government bond market, which if the they're not good nothing is, now some of these older bonds bearing 2½ or 3% whatever it is, they're selling for about $750.00 on a thousand dollar bond. Now you still get the thousand dollars if you hold them until maturity but you have to average discount on the bond with the interest it bears and then you'll come up in the present market any where between 6 and 6½% and it has been 7½%. Now you can buy certificates for example at maturity for 36 or 90 days. That't like money in your pockets. Those got up to about 8½% a short time ago.

SENATOR DUIS; Pardon me, Senator Carpenter I appreciate that. Now may I ask Senator Whitney and I'll be all through. Senator Whitney, on the bond market and I know you are very, very familiar with this - that's the reason I ask the question of you. In the matter of discounting on bonds with the investment council, do they have a way of taking advantage