My Burgers and Bonds Checklist

By Vineer Bhansali | February 14th, 2025

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I have to confess to something. I grew up completely vegetarian in India. When I came to the US at the age of 18, I was a good tennis player, but had almost no strength which is required for the kind of tennis played in college here. After getting demolished in a division 3 tennis match where the other guy was all serve and volley and I was all rally from the baseline, coach suggested some strength training, which obviously had to be supplemented by some good protein. The options given to me were (1) lots of soybeans, (2) meat. This was a problem either way. After discussing at length with my housemates, the decision was made to NOT try meat, since my 18-year-old self had never experienced it. Of course, you can guess what happened next. I rode my bike from the University to the nearest Burger King, and … the rest is history. Yes, BK was the beginning of a life-long love of good burgers.

Over the years I did get better at tennis, and also stronger. When I pivoted to running ultramarathons, I found that for me, a high animal protein ("beef") diet was much better than a high carb ("pasta") diet. I could feel that I had more endurance, and fatigue set in much later than on a high carb diet. My kids and I have now become burger connoisseurs of sorts, and on each trip, big city or small, big village or small, we search for the best burgers in town.

I have a simple four-point checklist for what makes a burger good: (1) Start with the best, highest quality meat with little to no additives or hormones, (2) Cook It just right, (3) Add the right toppings – fresh vegetables are the best and serve with the best sauce possible, (4) Eat it hot right off the grill. That's it. And as local Southern Californians know, In-N-Out is pretty darn close to hitting these checklist items for a good price and convenience to boot.

We can look at the bond market in a similar way. To use my old boss Bill Gross's "Bonds and Burgers" philosophy in the current environment, I thought I would also share my four-point checklist for what makes for a good bond investment.

First, start with the best credit. When you are buying a bond you are lending money. So no amount of interest is enough if you don't get your principal back when promised. Today, despite some speculation that Microsoft and other corporate paper are safer investments than good ol' Treasurys, the best credit in the world is still the US Treasury. Yes, people might point to the massive debt pile the US has created, and yes, it will become a problem, some day. For now, the US dollar is the reserve currency of the world, and the US has the largest military force, and the US is the largest market for goods for the rest of the world. Add to that a printing press that can print as many dollars as needed to pay off any debt denominated in the dollar. I would fade the noise around the chatter of increasing deficits and the size of the debt when it comes to US government and quasi-government bonds. To me the US Treasury bond market is still the highest quality ingredient in the bond market.

Second, the parallel to "cooking it just right", is the level of yields, which in the US are almost the highest of any developed nation across the whole yield curve. When yields were low and negative due to central bank buying about three years ago, this dish was well undercooked, and I argued to short the bond market at that time (see here). But today the situation is quite different.

> "The bond market is giving a healthy positive yield, and with the upward sloping yield curve, it is also giving positive carry and positive roll-down. In other words, as you wait you not only get the yield, but also an increase in the price simply due to the passage of time. This is a manifestation of the fact that finally there is some compensation, aka the "risk-premium", for taking duration risk."

For my own money, I would like to get an extra half a percent of yield on the ten-year Treasury, but the two-year and five-year notes are pretty well cooked. I will take a good serving of those now, please, and let me know when the tens and long bonds are well-done.

Third, adding the right toppings and special sauce in the bond market means getting a bit of additional spread. The agency mortgage market (aka Fannie and Freddie) offers another half percent to one percent of yield today, primarily because of high-interest rate volatility that creates a prepayment option for borrowers which leads to extra compensation for taking this risk. On the other hand, corporate credit spreads are way too tight for my liking, so right now I am staying away from corporate bonds despite the additional spread they offer.

Another percent or so of corporate yields on top of the Treasury bond market would make them more tasty. I will take the essentially government guaranteed mortgage market sauce please.

Finally, I would like to be able to time my purchase of bonds “right off the grill”. But I don’t think I, or anyone else, can consistently time turning points in any market. So I try to be within ten to fifteen percent of the turning points (in price terms), and try to build in some margin of safety when my forecasts of the turning points are murky.

“If I can lock in roughly five percent a year in high quality short duration bonds today, I feel good enough to not have to nail the turning point. Isn’t the point of eating a burger to get the nutrition and move on?”

Isn’t the point of owning bonds to get a safe, positive yielding instrument with guaranteed principal and a natural diversifier to stocks and to move on with other more important things in life?

So there you have it. While waiting for more information is always better, it seems to me that the high-quality bond market, after a couple of dismal years, is appetizing enough. And when it comes to getting some good old Treasury bonds into my portfolio, going through Treasury Direct is about as convenient and cheap (“Free”!) as driving to the local In-N-Out.

Important Disclosures

Vineer Bhansali, Ph.D. is the Founder and Chief Investment Officer of LongTail Alpha, LLC, an SEC-registered investment adviser and a CFTC-registered CTA and CPO. Any opinions or views expressed by Dr. Bhansali are solely those of Dr. Bhansali and do not necessarily reflect the opinions or views of LongTail Alpha, LLC or any of its affiliates (collectively, "LongTail Alpha"), or any other associated persons of LongTail Alpha. You should not treat any opinion expressed by Dr. Bhansali as investment advice or as a recommendation to make an investment in any particular investment strategy or investment product. Dr. Bhansali's opinions and commentaries are based upon information he considers credible, but which may not constitute research by LongTail Alpha. Dr. Bhansali does not warrant the completeness or accuracy of the information upon which his opinions or commentaries are based.

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