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EXCLUSIVE REPORT

Startup Guide

Porter & Co. Distressed Investing

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Welcome!

Porter & Co. is a boutique research firm helmed by investment icon Porter Stansberry. Our mission is to find long-term, generational wealth opportunities, often in unexpected places...like distressed corporate bonds.

We are about to enter a unique market environment we call "the greatest transfer of legal wealth in history", when investors will be able to pick up incredible bargains in corporate bonds, if they know where to look. For an in-depth discussion of distressed debt and how we'll use bonds to profit, please see our Guide to Distressed Investing at the link here.

CLICK HERE FOR THE DISTRESSED INVESTING GUIDE

In the Startup Guide below, you'll find answers to some of the more common questions about investing in bonds: how they work, how they're valued, and where and how to purchase them. We also include helpful "real world" examples, along with a list of reputable brokers and a glossary of key terms.

We look forward to working with you, and we want to help you make the most of your subscription to Porter & Co. Distressed Investing. If you have any other questions, please call Lance, your personal concierge:

Toll-free at **(888) 610-8895**, or locally at **(443) 815-4447**.

Let's get started...

How Do Bonds Work?

The basic premise of holding a bond is that you're buying predetermined future cash flows that an entity is obligated to pay.

Basically, you're like the banker who holds a mortgage. Just as a homeowner has to repay the loan to the bank, a company that issues a bond must repay the bond holder with principal and interest. If the company doesn't pay, the bond holders can "foreclose" on the business, forcing it into bankruptcy where its assets are liquidated to repay the bond holders. It's a lot like a homeowner who loses their home because they stopped making their mortgage payments to the bank. Tough on them!

Debt investors love bonds because the cash flows are predefined. When a company issues a bond, the company is now in debt. It is obliged to pay off the debt, in addition to making interest payments.

There are various types of bonds, such as Treasury bonds, which are issued by the U.S. government, and municipal bonds, which are issued by state and local governments. But we're interested in corporate bonds. These are tradable promises to pay, backed by companies' assets and earning power.

So, What Is a Bond?

A bond is a debt instrument that a company uses to fund its operations. Put more simply, it's a company's promise to repay borrowed money. The bond's features include the principal (face value) at the time the bond was issued, as well as the amount of the interest payments.

When a company needs to raise money, it can sell equity by issuing stock, which is attached to ownership of the assets. Alternatively, it can raise debt either by issuing a bond or getting a loan from a bank. Companies often prefer to issue bonds over taking out bank loans because the borrowing terms are better and are predetermined. Bank loans, on the other hand, can be modified or restructured after the loan is extended. Banks also impose stricter limits on companies' ability to issue debt and make acquisitions.

Why Do Companies Issue Bonds?

Companies issue bonds to raise capital.

When a company issues shares of its stock, it's selling a piece of itself. And it doesn't owe the recipient anything, unless it volunteers to pay a dividend.

But with a bond, the company is bound by a contract to make the agreed upon cash payments ***and it must repay the debt in full at a specified future point.***

A company may issue debt to obtain capital for operating and growing its business. For example, capital raised by a debt offering may be used to build a factory, to buy new equipment, to fund an acquisition, or for any other business purpose.

From the company's standpoint, issuing new equity has the disadvantage of diluting the current shareholders by giving the owners of the new equity a share of the company's future profits. If the company instead issues a bond, it avoids dilution while increasing its return on equity. The company may even issue debt to fund a stock repurchase, which means its profits will be divided up by a smaller number of shares than were formerly outstanding.

For instance, Apple has used bonds strategically to build up its cash and help fuel its share repurchase program. From 2012 to 2022, Apple bought back more than $325 billion (that's equivalent to almost $1,000 per person in the U.S.) of its stock. Meta, formerly Facebook, made its first ever bond offering in 2022 and used the proceeds for capital expenditures, share repurchases, and future acquisitions.

Issuing bonds offers an additional advantage to companies because, unlike stock dividends, bond interest payments are tax deductible for the issuers. For the investor, bonds offer an opportunity to invest in stable, healthy corporations without exposure to the volatility of the stock market. And if things go terribly wrong and the company ends up in bankruptcy, bond holders, as creditors, are among the first in line to be repaid.

How Are Bonds Created?

A company issues a bond by hiring an underwriter – an investment bank such as JPMorgan, Goldman Sachs, or Morgan Stanley. The underwriter canvasses the market to determine the interest rate that's required to persuade institutional investors to get in on the deal. Once that's determined, the underwriter buys the bonds, called the ***issue***, from the company and resells them to the investors. These initial sales are called the ***primary market***.

After the bonds are distributed, the underwriter and other firms act as ***market makers***. They bring together buyers and sellers of the issue. This activity is known as the ***secondary market***.

The existence of an active secondary market in a bond enhances its value. Investors take comfort in knowing that they're able to sell their holdings if they perceive a deterioration in the issuer's financial condition or if they simply need to raise cash.

How Are Bonds Priced?

The price at which the market maker is willing to buy the bond is called the bid. The price at which it will sell the bond is called the ask. The difference between those prices is called the bid/ask spread. The bid/ask spread will depend on the issue's total amount outstanding, the face amount of bonds involved in the trade, the issuer's credit risk, and prevailing debt market conditions.

For example, when interest rates are especially volatile or when the economy is declining, the market maker's risk of holding bonds until it can find a seller increases. Under those circumstances, the market maker will seek to reduce its risk by widening its bid/ask spread, allowing them to make a greater profit on each transaction.

Market makers inform investors about the prices they're willing to buy or sell at on a given day, but ultimately, it's the investors in the secondary market who determine the price of these assets through their decisions to acquire or offload bonds.

What Do I Need to Know Before Buying a Bond?

Some key facts to pin down before you invest in a bond:

1. **Who is the borrower we're lending to?**
   - This is the company/corporation we've been referring to as the issuer.
2. **What is the face value or principal amount of the issue?**
   - This is the amount that investors are due to be repaid in full. The face amount is typically $1,000 per bond.
3. **What is the bond's coupon schedule?**
   - These are the dates that interest payments and principal are due. The interest payments are most often made semiannually.

How Do I Buy Bonds?

How Do I Deal With A Brokerage?

The process of buying a bond differs from buying a stock. Today, it's become simple to buy stocks with the evolution of online brokerages and mobile apps that allow people to access the stock market. However, the same can't be said for the bond market.

Buying bonds is slightly more complex, but once you get the hang of it, you'll see how easy it really is.

Depending on your brokerage firm, you may or may not be able to buy the bonds you're looking for online. If not, you'll need to call your brokerage firm and have it buy the bonds for you. If you work with a full-service broker, you'll deal directly with someone from the brokerage, usually over the phone. Full-service brokers can be helpful in providing additional research or insight that's tailored to your goals and financial profile.

When you call your brokerage house, they'll tell you whether the bond you're looking to buy is available to them. Sometimes the bond won't be available to the broker because the bond market is much less liquid than the stock market. You can buy a case of Budweiser just about anywhere, but your local wine shop might not have that Chateau Lafite Rothschild you covet.

Since the bond market isn't as straightforward as the equity market, there's less competition for us. And that's a good thing.

When you speak to your broker, ask for the current market price of the bond you're looking to acquire and you'll be given the bid/offer. (The offer is what you'll be paying.) Then tell the broker how many bonds you'd like to buy.

Different brokers have different requirements – you may need to open a separate bond account, or provide additional information. We recommend getting acquainted to a point where you feel comfortable with calling your brokerage firm or the fixed-income specialist who will help you get quotes. These specialists will check the various dealers' quotes for the bond you're looking to buy so that you can get the best price. Most brokerage firms will charge a $1 commission for every time you purchase or sell a bond (check your brokerage firm for minimums or fees).

Here's a quick breakdown of the steps you'll go through to purchase a bond:

1. **Tell your broker or place an online order for the number of bonds you'd like to acquire.**
2. **Provide the name of the borrower, the coupon, and date of maturity.**
3. **Provide the CUSIP number.**
   - CUSIP stands for "Committee on Uniform Securities Identification Procedures" and is a unique series of numbers and letters assigned to every traded security. Providing the CUSIP will ensure that you're buying the right security.

What Should I Ask My Broker?

The process of buying bonds is slightly different from buying shares of stock. Keep in mind that a company may have multiple bonds with maturities and different yields, so you'll want to confirm you are purchasing the right bond.

Here's how a conversation with your broker might go:

> ***Investor:*** *"Hello. I would like to buy some corporate bonds today. Can you get me bond prices so I can decide whether or not I want to buy?"*

> ***Broker:*** *"Yes, what bonds are you interested in today?"*

This is when it's critical that the investor shares the proper information we mentioned in describing the steps to purchase a bond. Specifically, the investor will need to know the ***name of the borrower****, the* ***coupon****, the* ***date of maturity****, and the* ***CUSIP number****.*

Here's an example of how the investor should respond:

> ***Investor****: "The ABC Company 7.50% bond due September 1, 2026. The CUSIP number is 12345AB67. I am interested in buying 10 of these bonds."*

Important to remember:

- "Bonds" are often referred to as "notes" so don't get caught off guard if your broker uses the term "note" instead of "bond" – they are used interchangeably.

- Make sure to tell your broker the CUSIP. Every security (stocks, bonds, convertibles, etc.) is assigned a CUSIP number by the S&P so that each entity's individual securities can be deciphered. Make sure you confirm the CUSIP so you purchase the correct bond.

If a mistake occurs, here's what your broker might say in response:

> ***Broker**: "I am not familiar with that company and am having trouble finding it."*

> *"The CUSIP number is incorrect or invalid."*

> *"We currently don't have the bond in our inventory. So, we can't sell you the bond today."*

While these responses may be truthful, they don't necessarily tell the whole story.

This is where the investor should ask to speak to a fixed-income or bond specialist. Recall that the bond market is much less popular (and there's much less trading volume) compared to the stock market, so don't be surprised if you are dealing with a broker who knows little about the bond market. (This is part of the reason why, in the bond market, there are fewer market participants and less overall interest, so it's easier to scoop up bargains when the opportunities arise).

> ***Investor**: "I'd like to speak with a fixed-income specialist. Please return my call when you have a fixed-income specialist on the line or have a price."*

> ***Fixed-Income Specialist**: "Thanks for your patience. The*

> *price for the size of your request to buy 10 bonds is $79. The brokerage charges a commission (or service fee) of $25 which will be reflected on your trade ticket if you decide to make a purchase. Would you like to buy these bonds?"*

The $79 price he quoted is really $790 for the cost of each bond. When quoting bonds, brokers will most likely drop the last zero, so $790 becomes $79.

Now, if the investor decides to purchase 10 bonds, his total will be $7,900 ($790 x 10 = $7,900) in addition to the commission or service fee.

> ***Investor**: "Yes. The total comes out to $7,900 plus the service fee. Is that correct?"*

> ***Broker**: "Yes, it is correct. I will go ahead and make the transaction. You will get an email confirmation over the next 24 hours. Have a great day!"*

And that's how simple it is to buy bonds!

Which Broker Should I Use?

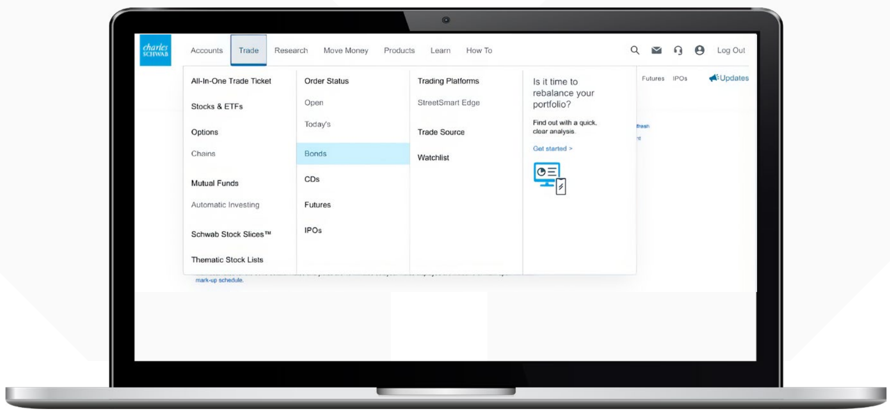
Porter & Co. has no affiliation with any brokerage firms, but we'll share the names of some large, reputable firms that can handle bond purchases.

Bond Brokers	How to Place Trades	Fee Structure	Minimum Investment to Open an Account	Website	Phone
Charles Schwab	Online or over the phone (extra charge for broker-assisted trades)	Online: $1 per bond, $10 minimum $250 maximum Broker-assisted: Online pricing + $25 service charge	$0	CLICK HERE	800-626-4600
Fidelity Investments	Online or over the phone (extra charge for broker-assisted trades)	Online: $1 per trade Broker-assisted: A $19.95 transaction fee applies	Starting at $100	CLICK HERE	800-343-3548
E-Trade	Online or over the phone (extra charge for broker-assisted trades)	Online: $1 per trade, $10 minimum $250 maximum Broker-assisted: A $20 transaction fee applies	$500	CLICK HERE	866-420-0007
Interactive Brokers	Online (extra charge for broker-assisted trades)	0.1% face value for the first $10,000 and 0.025% for additional face value.	$1 for the first $10,000 invested and no additional minimum for more than $10,000.	CLICK HERE	312-542-6901
TD Ameritrade	Online through the retail online platform or over the phone.	TD Ameritrade will charge a $1 per bond or CD on secondary transactions placed through their online platform.	Orders are subject to a $2,000 face value minimum.	CLICK HERE	800-934-4445

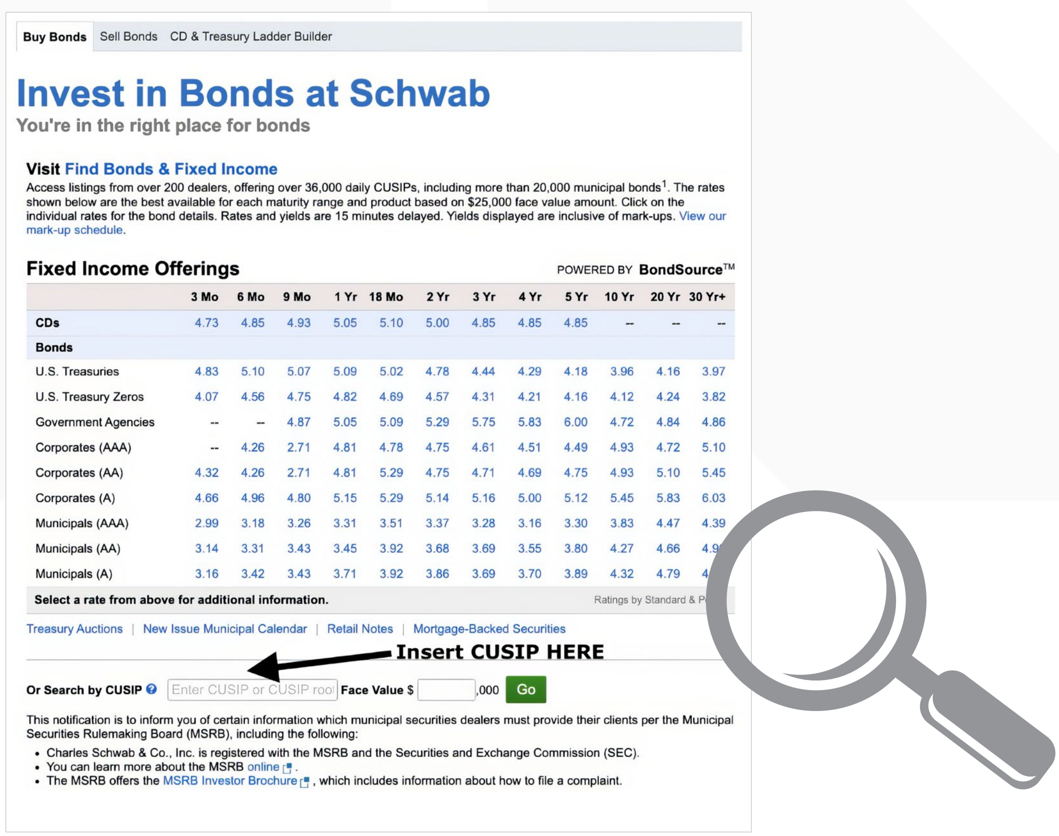
Can I Buy Bonds Online?

Now, you might be wondering if there's a simpler way to buy bonds without calling your broker. The answer is yes, you can (generally) buy bonds online. Here's how it works for most online brokerages:

1. **Go to the "Bonds" section under the "Trade" tab at the top menu of your online brokerage. (Schwab is used in the images below for demonstration purposes only).**



2. **When you land on the bond page, enter the CUSIP in the bar where it asks to "Search by CUSIP" (as seen below).**



Buy Bonds | Sell Bonds | CD & Treasury Ladder Builder

Invest in Bonds at Schwab

You're in the right place for bonds

Visit Find Bonds & Fixed Income

Access listings from over 200 dealers, offering over 36,000 daily CUSIPs, including more than 20,000 municipal bonds[1]. The rates shown below are the best available for each maturity range and product based on $25,000 face value amount. Click on the individual rates for the bond details. Rates and yields are 15 minutes delayed. Yields displayed are inclusive of mark-ups. View our mark-up schedule.

Fixed Income Offerings POWERED BY **BondSource**™

	3 Mo	6 Mo	9 Mo	1 Yr	18 Mo	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr	20 Yr	30 Yr+
CDs	4.73	4.85	4.93	5.05	5.10	5.00	4.85	4.85	4.85	--	--	--
Bonds												
U.S. Treasuries	4.83	5.10	5.07	5.09	5.02	4.78	4.44	4.29	4.18	3.96	4.16	3.97
U.S. Treasury Zeros	4.07	4.56	4.75	4.82	4.69	4.57	4.31	4.21	4.16	4.12	4.24	3.82
Government Agencies	--	--	4.87	5.05	5.09	5.29	5.75	5.83	6.00	4.72	4.84	4.86
Corporates (AAA)	--	4.26	2.71	4.81	4.78	4.75	4.61	4.51	4.49	4.93	4.72	5.10
Corporates (AA)	4.32	4.26	2.71	4.81	5.29	4.75	4.71	4.69	4.75	4.93	5.10	5.45
Corporates (A)	4.66	4.96	4.80	5.15	5.29	5.14	5.16	5.00	5.12	5.45	5.83	6.03
Municipals (AAA)	2.99	3.18	3.26	3.31	3.51	3.37	3.28	3.16	3.30	3.83	4.47	4.39
Municipals (AA)	3.14	3.31	3.43	3.45	3.92	3.68	3.69	3.55	3.80	4.27	4.66	4.9
Municipals (A)	3.16	3.42	3.43	3.71	3.92	3.86	3.69	3.70	3.89	4.32	4.79	4

Select a rate from above for additional information. Ratings by Standard & P

Treasury Auctions | New Issue Municipal Calendar | Retail Notes | Mortgage-Backed Securities

Insert CUSIP HERE

Or Search by CUSIP Enter CUSIP or CUSIP root **Face Value $** ,000 Go

This notification is to inform you of certain information which municipal securities dealers must provide their clients per the Municipal Securities Rulemaking Board (MSRB), including the following:

- Charles Schwab & Co., Inc. is registered with the MSRB and the Securities and Exchange Commission (SEC).
- You can learn more about the MSRB online.
- The MSRB offers the MSRB Investor Brochure, which includes information about how to file a complaint.

3. **Confirm your security, the CUSIP, and make sure you are comfortable with the price and make the purchase as you would when buying a stock on your online broker.**

How Can I Make Money on Bonds?

How Are Bonds Valued?

Let's walk through an example of how we value a bond.

Company ABC issues a bond with a face value of $1,000 called ABC Company 7.50% bond due September 1, 2026. The ABC company issues the bond and must pay interest on the specified date to the bondholders. ABC Company is the borrower.

The face value, or principal, is usually $1,000. For the bonds we are interested in, we will be paying much less as the bonds we are buying are distressed and trading at a discount to par value.

The coupon is 7.50% and this will not change over the term of the bond. Coupon payments are usually paid semi-annually, as they are in this example, so the bond issuer will pay $37.50 of interest on March 1 and September 1 of each year ($1,000 x 0.075 = $75 /2 = $37.50). On September 1, 2026, the issuer will pay the $37.50 in interest as well as the principal or par value.

The coupon payments, the principal, and their respective schedules will not change once a bond is issued. However, the price of the bonds will fluctuate on the secondary market.

At the time the bond issued:	
Original price of the bond	$1000.00
Annual interest payments	$75.00
Yield ($75 / $1,000)	7.5%
Current price at the time of purchase on secondary market:	
Current price of the bond	$760.00
Annual interest payments	$75.00
Yield ($75 / $760)	9.87%

If you pay $750 for the bond, you'll receive a 9.87% yield on your invested capital, much better than the 7.5% coupon rate.

What Will I Receive in Interest and Capital Gains?

When you buy a bond, you are entitled to the interest payments plus the full amount of the bond. Because we are buying corporate bonds that are trading for much less than their par value, they are trading at discounts.

In the example above, your purchase price was $750, you receive $75 per year in interest until the bond matures in addition to the $1,000 amount repaid. Your capital gain will be $250, or 25%.

This is an Example of a Successful Distressed Bond Investment

From the end of 2008's third quarter through the middle of 2009, Rite Aid's 6.875% bond due 8/15/2013 was trading at a gigantic discount to par value. You could have bought the bond for $300, yielding 22.9%, and quadrupled your original investment, including interest you collected, so long as the issuer didn't default.

Let's walk through what you would have made if you bought Rite Aid's 6.875% Bond due 8/15/2013 on December 15, 2008. See the chart on the next page.

The Rite Aid Corporation 6.876% Bond due 8/15/2013 at $291.52 _ CUSIP#767754AD6

Summary

December 15, 2008	Amount Invested	$314.50
August 15, 2013	Total Interest from Principal	$1,343.80
	Profit	$ 1,320.82 (interest bondholder is entitled to from Dec 15 to maturity is $320.82)
	Current Yield	23.6%
	Total Return	327.3%
	Term	4.67 years
	Issue Size	$185 Million
	Credit Rating	CCC+
	Callable	No

Details

December 15, 2008: Purchase the bond.

	Accrued Interest*	$22.98 per bond
	Total Cost	$314.50 per bond
	Receive interest payment	$34.38 per bond
February 15, 2009	Receive interest payment	$34.38 per bond
August 15, 2009	Receive interest payment	$34.38 per bond
February 15, 2010	Receive interest payment	$34.38 per bond
August 15, 2010	Receive interest payment	$34.38 per bond
February 15, 2011	Receive interest payment	$34.38 per bond
August 15, 2011	Receive interest payment	$34.38 per bond
February 15, 2012	Receive interest payment	$34.38 per bond
August 15, 2012	Receive interest payment	$34.38 per bond
February 15, 2013	Receive int. and prin. payment	$1,034.38 per bond
August 15, 2013		

*The accrued interest from August 15, 2008 through December 15, 2008, the settlement date, was earned by the seller and is added to the price of the bond. The first interest payment you receive will be on February 15, 2009 for $34.38.

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Key Terms

Maturity	The date by which the borrower must repay the principal (generally between two and five years).
Bond Yield	The annualized return an investor earns over its maturity date.
Coupon	The amount of interest in dollars per hundred dollars of face value that the bondholders will receive. • The term coupon is derived from the historical use of actual coupons used to come with the physical bondholders sent in to receive an interest payment. • The coupon will not change.
Coupon Rate	The interest rate that the issuer pays (usually semi-annually).
Face Value/ Par Value	The principal or the amount borrowed; this is the amount paid to a bondholder at the maturity date (usually $1,000).
CUSIP	The unique nine-digit identification number assigned to all stocks and bonds in the U.S. and Canada.
Bond Rating	The measure of quality and safety of a bond as defined by the credit rating agencies.