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Manufacturing conglomerate Textron remains diversified and strong

By Times-Dispatch Staff

Q: What can I expect from my shares of Textron Inc.? I am a long-time shareholder. — E.D., via the Internet

A: Even someone who isn't privileged to use a corporate jet or helicopter can see that things are looking up for this manufacturer of Cessna planes and Bell helicopters.

The firm's significant restructuring efforts of the past two years seem to be paying off; demand for its products has recovered; more cash is being generated, and the heavy debt load of its finance unit is being reduced.

With revenue gains throughout its businesses, everything seems to add up to a turnaround. Yet even though it enjoys a backlog of orders, it is important to keep in mind that the company will always be somewhat subject to the vagaries of the economy and potential governmental shifts in military spending.

Textron (TXT) shares are up 8 percent this year following gains of 26 percent last year and 36 percent in 2009. Fitch Ratings upgraded the company's debt to BB+ after it swung to a profit of $60 million in its fourth quarter, compared with a year-earlier loss of $63 million.

The leading company in business jets, Textron has an aviation unit that features the Cessna, Citation and Caravan brands. Its goal is to expand to an even wider audience. Bell is also a leader in both commercial and military helicopters, with its helicopters employed in both Iraq and Afghanistan. The firm is also known for unmanned aircraft and military-communication systems.

The consensus analyst opinion on Textron shares is "buy," according to Thomson Reuters, consisting of three "strong buys," five "buys" and seven "holds."

Textron earnings are expected to increase 43 percent this year compared to 30 percent forecast for the diversified manufacturing industry, according to Thomson Reuters.

Q: What do you think of the prospects of Third Avenue Real Estate Value Investor Fund? — P.R., via the Internet

A: It has provided solid returns with relatively low volatility; however, it doesn't offer high yield, and its large concentrations in specific issues are potentially risky.

The $1.9 billion Third Avenue Real Estate Value Investor Fund (TVRVX) is up 15 percent over the past 12 months to rank in the upper one-fifth of global real estate funds. Its three-year annualized decline of 1 percent places it in the upper one-third of its peers.

"This fund is definitely not a core holding because, while it will give you exposure to the real estate market, it is not diversified enough to justify a big percentage of an individual's portfolio," said Josh Charlson, mutual fund analyst with Morningstar Inc. in Chicago. "Lead manager Michael Winer likes to concentrate on operating companies that emphasize development, and, while development can offer better returns, there can be losses long the way."

Winer has run the fund since its 1998 inception. He has considerable real estate experience, with involvement in both development and distressed situations.

Third Avenue is known for seeking companies trading at a discount to its estimate of net asset value, with special expertise in the bankruptcy market. By focusing on real estate operating companies, this fund doesn't provide a large dividend yield. However, the lack of real estate investment trusts can make it a good fit for a taxable portfolio.

Q: What exactly does a rise in interest rates do to bonds or bond funds, and what should I be worried about? — P.T., via the Internet

A: It is all about the relative attractiveness of the bonds: When the yield of new bonds increases, the value of existing lower-yielding bonds decreases.

Similarly, when the yield of new bonds decreases, it makes higher-yielding earlier bonds worth more.

"The riskiest time to own a bond or bond fund is when interest rates are low, and since they are currently at historically low levels, this is a risky time," explained Tom Winmill, portfolio manager with the Midas Fund in New York.

Long-term bonds in particular should be avoided right now, he says, because their losses will be proportional to the maturity of the bond or bond portfolio. That means a 10-year bond will lose more value than a one-year bond if interest rates go up, he concluded.