Exchange-traded funds have been around only about 20 years, but they're already a huge business: As of late 2012, there were nearly 2,200 ETFs in the United States, with assets of $1.3 billion.

What's interesting is that as a bond investor, you don't even have to own an ETF to benefit from this trend. That's because ETFs have changed the bond-investing game for all investors. Because of the way big investors now use ETFs, individual bonds often swing up and down sharply in price. As a result, if you know what you're doing, there's an opportunity to earn something very rare these days: a high yield on a relatively safe investment.

You probably know that ETFs are like mutual funds that trade on the market. They usually track an index, containing all the stocks or bonds on that index. Stock traders, including big institutional traders, often own bond ETFs alongside their stocks because they can't, or choose not to, analyze individual bonds before buying them.

As a result, these big traders buy and sell baskets of bonds as a whole, without being too concerned about the valuation of particular securities inside it. These players trade in big enough dollar amounts to move the market, and that's where the opportunity comes in for investors in individual bonds.

The mass buying and selling through ETFs causes the individual bonds within the ETFs to spike or drop in price. In many instances, the traders just want to unload their bond positions, and they throw out babies in the bathwater—meaning higher-quality bonds available at below-market prices.

An example is Advanced Micro Devices. We bought AMD debt a few years back after the ETF bond selling drove their price to under 83 cents on the dollar, which translates to a current yield of 9.3% and a yield to maturity of over 11%. (The current yield indicates the yield of the bond based on its current market value, while the yield to maturity is the anticipated rate of return on a bond if held until the end of its lifetime.)

This particular bond was held in several high-yield ETFs. AMD is a B rated issue—below investment grade, but as research analyst Dave Novosel pointed out in 2012, the combination of AMD's high cash position and potential of improving cash flows made it well worth the 9.3% current yield. For comparison's sake, Caesars Entertainment, a CCC+ rated issuer by Fitch at that time, was trading around 9.2% yield to maturity. In other words, our AMD position was giving us 2% more yield that an issue that's two ratings steps lower than it–mainly because it is traded inside of ETF securities.

The market seemed to have realized this underpricing, and over the last two years traded this AMD debt back up to the $1.07 range, an overpricing of this security due to the over-purchasing of high-yield ETFs. Down the line, we will trade out of that AMD position when a better opportunity comes along, but at this point we are being paid a very nice yield to wait. Please don't hesitate to contact us if you'd like to learn more about how we identify opportunities in the bond market.