A flight to quality was evident Tuesday when Pfizer Inc. (PFE) attracted bids for twice the amount of bonds it had to sell, but the data show that for most of the past two decades investors weren't flocking to quality at all.

Since 1990 the spread between triple-A and double-A corporate bonds has gyrated between a low of five basis points and high of nearly 80 basis points, according to data provided by Global Insight.

Most of the time the spread has hovered around 28 basis points, which means a triple-A rated company paid interest that was 28 basis points lower than a double-A company on a comparable bond issue. That was a small savings compared with the cost of sustaining a triple-A rating and helps explain why so few corporations strive to achieve a triple-A rating today.

"Most management teams have decided it isn't worth it to their shareholders to be so bullet proof," says Charles Jones, chairman of the finance and economics department at the Columbia Business School. "What they've discovered is that triple-A may not be the ideal rating."

Pfizer sold $13.5 billion in bonds that were rated triple-A by Standard & Poor's. Fitch rated the bonds a notch lower. Moody's rated them two notches lower. Besides Pfizer's borderline rating only four other triple-A corporate bond issuers remain.

Dwindling numbers of premium corporate bonds reflect both the tough economy and the fact that managers decided early this decade that paying down debt and holding enough cash to earn a triple-A rating was a losing proposition. They were better off borrowing money and buying back shares.

"What we are seeing are the finishing touches on the process of getting rid of triple-A corporates," says Jones.

Investors seek the safety of triple-A bonds during recessions. So it stands to reason that the spread between triple-A and double-A widens when times are bad and narrows when times are good.

For example, the spread was 79 basis points at the end of last year, according to Global Insight. That compares with a spread of just 15 basis points at the end of 2005.

Global Insight gathered bond data for the last day in every calendar quarter since 1990. It showed the spread between triple-A and double-A corporate bonds has averaged 28 basis points during that period.

Focusing on the last interest-rate cycle beginning in 2004 through the onset of the current recession in 2008, there were six quarters when the spread was 20 basis points or less.

In other words, during six of the 16 quarters, interest rates on the two grades of bonds converged dramatically. Companies saved little interest expense issuing triple-A bonds compared to double-A.

"When times are good people don't put as much weight on triple-A," says Bruce Fenton, managing director of Atlantic Financial in Norwell, Mass.
Now it's weighing on everyone but triple-A bonds are scarce, which is why the Pfizer bonds attracted $28 billion in bids for a $13.5 billion offering.

Restoring companies to triple-A can't be done with a stimulus plan, says Fenton. "It takes real companies making real products at a profit."

Last week General Electric Co. (GE) and Berkshire Hathaway Inc. (BRKA), two of the most real businesses in the country, were downgraded by at least one bond rating firm to double-A from triple-A.

"There is a supply effect to the market now," says Richard Grossman, an economics professor at Wesleyan University. "If there is less paper, the paper itself is going to be more valuable."

Oddly, one beneficiary of the demise of the corporate triple-A is the U.S. Treasury, says Grossman. Demand is high for Treasury bills and notes, which is keeping borrowing costs down for the government.

"In some sense you can say the government is profiting from the decline in credit quality," says Grossman.

(Steven D. Jones is one of five In The Money columnists who take a sophisticated look at the value of companies and their securities and explore unique trading strategies. He can be reached at 360-834-1865 or by email at steve-d.jones@dowjones.com.)