



MUNICIPAL BONDS 101

These days, everyone's looking for a way to maximize their income while maintaining a well diversified portfolio. Investing in municipal bonds can help.

WHAT IS A MUNICIPAL BOND?

Municipal bonds are debt obligations issued by states, cities, counties and other public entities that use the loans to fund public projects such as primary and secondary schools, hospitals, highways, sewers, universities and other projects for the public good.

When you purchase a municipal bond, you are lending money to an issuer who promises to pay you a specified amount of interest and return the principal to you on a specific maturity date.

Although all municipal bonds are different, most offer income which is exempt from federal income taxes and many times from state or local taxes too. These tax-exempt earnings can be especially attractive to investors who are in higher tax bracket—particularly residents of a high-tax state who buy municipal bonds that are tax-exempt in that state.

BENEFITS OF MUNICIPAL BONDS

Municipal bonds are extremely popular today because they provide several benefits to investors. These include:

- Attractive and dependable income, free from federal, and, in many cases, state and local taxes
- High degree of safety with regard to payment of interest and repayment of principal
- A wide range of choices to fit in with your investment objectives with regard to investment quality, maturity, bond type and geographical location
- Marketability and liquidity, in the event you must sell before maturity

RISKS OF MUNICIPAL BONDS

Although municipal bonds historically have been a high-quality asset class relative to other fixed-income investments, you should also consider the risks. Generally, the primary concerns a municipal bond investor faces are the risks related to default, or the issuer's ability to meet its financial obligations. In addition, investors may also be subject to market risk if they sell their bonds prior to maturity.

With respect to default risk, investors should review the credit rating of each municipal investment. In the case of insured municipal bonds, you should also review the credit rating of both underlying

bonds and their insurers. The security's rating represents either the security's underlying rating or the rating based on the insurance, whichever is higher. In addition, you should review the financial condition of the issuer via publicly available documents prepared by the issuer.

Another thing to consider is market risk in conjunction with selling your municipal bond prior to maturity. As with all fixed-income securities, municipal bond prices fluctuate in response to changing interest rates. In other words, prices increase when interest rates decline and prices decline when interest rates rise. If you sell prior to maturity, you will receive the current market price, which may be less than the original price you paid for the bond.

Municipal bonds can offer you the opportunity to maximize your after-tax return, consistent with the amount of risk you are willing to accept. As with most investment options, the higher the yield, the higher the risk.

JANNEY AND OUR BOND MARKET CAPABILITIES

At Janney we know that including municipal bonds in your portfolio can help you achieve your income goal. That's why we ensure that all municipal bonds offered by Janney are evaluated, researched and analyzed extensively by our team of experts. When choosing a municipal bond for your portfolio, Janney will consider all factors such as tax considerations, sector exposure and credit quality, to help you create the optimal tax-free municipal portfolio for your needs.

Janney gives our clients market access and liquidity to a broad range of municipal bonds from a large inventory of secondary market bonds. In addition, our firm is very active in the issuance (origination) of municipal securities which gives our clients access to new issue municipal bonds that might not be available elsewhere.

Based on your financial objectives, your Janney Financial Consultant can help you research and select top-quality municipal bonds for your portfolio. Contact your Janney Financial Consultant today.

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