

Understanding Municipal Bonds

(NAPSA)—When markets turn uncertain for a prolonged period of time, investors often give municipal bonds a second look. Here's a brief review of the investment, its benefits and its challenges.

Making Sense Of Munis

Municipal securities—often called “munis” or “muni bonds”—are bonds issued by states, cities, counties and other governmental entities to raise money to build roads, schools and a host of other projects for the public good.

While munis have historically been considered relatively conservative investments, as with all investments, they do carry risk.

“When it comes to evaluating a municipal bond, investors should be aware of the issuer’s ability to meet its financial obligations,” according to John Gannon, senior vice president, FINRA Investor Education.

One way to evaluate an issuer’s default risk is to assess its financial condition. When a muni bond issuer offers a new bond for sale, it usually discloses the details of the offering and information about its financial condition in the bond’s “official statement.” This is similar to the prospectus used for corporate securities offerings.

The Municipal Securities Rule-making Board (MSRB) makes official statements and other muni bond disclosures available to the public for free through its Electronic Municipal Market Access (EMMA) website.

Smart Tips

Here are some helpful tips when considering a municipal bond investment:

- Understand the type of bond you are buying. “General obligation” bonds are backed by the



When considering a municipal bond investment, financial experts advise using available resources to do research and to understand your risks.

issuer, and their creditworthiness depends primarily on the economic strength of the issuer’s tax base. “Revenue” bonds are backed by revenue generated or collected by a facility, such as tolls from a bridge or road.

- Evaluate each type of bond on its own merits. Each is subject to its own set of economic forces and carries its own rate of return.

- Never make your investment decision based solely on a bond’s yield. A higher return is often an indicator of increased risk.

- Keep up with news and updated financial information. An issuer’s circumstances may change over time.

- Use FINRA’s Market Data Center—www.finra.org/marketdata—to check a bond’s trading history, including how actively the bond trades and recent pricing.

- Diversify. Your portfolio should contain more than just muni bonds, and when diversifying within the muni bond asset class, consider diversification by issuer, location and maturity date.

For more information, read FINRA’s Smart Bond Investing at www.finra.org/smartbonds.