QUICK QUIZ

Do You Know These Top 10 Fixed-Income Facts?

(NAPSA)—Does this current shaky financial market have you confused and uncertain about which investments are best for you? Use this quick quiz to help educate yourself about bond (fixed-income) investment opportunities in the current environment.

Answer True or False for questions 1 through 6:

1. Municipal bonds typically pay out less income (that is, they yield less) than similar maturity Treasury bonds.

2. When the yield curve—a chart representing the relationship between bond yields and their maturities—becomes steeper, it means investors can get paid more for taking on more maturity risk (i.e., by buying longer-term bonds).

3. When interest rates go up, bond values or prices also go up.

4. In the current market, tax-free municipal bond funds remain attractive investments.

5. The fixed-income market offers attractive investment alternatives for investors with higher risk/return appetites and longer investment horizons.

6. In environments of extended economic weakness and stock market underperformance, investors may find fixed-income investments help offset negative returns in their stock holdings.

7. Which of the following factors poses a risk to U.S. bond investors? A. Rising interest rates/inflation B. Rising default rates on debt C. Depreciation of the U.S. dollar D. All of the above

8. Which of the following fixed-income investments is likely to perform best in a rising interest rate environment? A. U.S. Treasury bonds B. High-yield bonds C. Municipal bonds D. Floating-rate bank loans

9. Which of the following fixed-income investments have the greatest credit risk? A. 10-Year U.S. Treasuries B. 10-Year municipal bonds C. High-yield bonds D. Floating-rate bank loans

10. What is the proper allocation mix between stocks and bonds for the average investor? A. 50 percent stocks; 50 percent bonds B. 60 percent stocks; 40 percent bonds C. 30 percent stocks; 70 percent bonds D. 100 percent stocks; 0 percent bonds E. 0 percent stocks; 100 percent bonds?

Answers

1. True. Because they are tax-exempt and thus offer higher after-tax returns, municipal bonds typically yield less on a pretax basis versus similar maturity Treasury bonds. 2. True. Steepening yield rates mean new investors in long-term municipal bonds get higher yields, but hurts those holding long-term municipal bonds issued at lower yields. 3. False. When interest rates rise, the price (value) of the bond declines. 4. True. Typically, municipal bonds issued by city, county or state governments provide a lower yield than comparable Treasury bonds. 5. True. For investors with a higher-risk appetite and an intermediate to long-term investment horizon, believe floating-rate loans, high-quality municipal bonds and high-yield bonds could offer equity-like returns given the severe dislocations in each of these debt markets. 6. True. Even in an unprecedentedly volatile market, the performance of many bond asset classes can be less negative than that of the S&P 500. Diversification into fixed income has generally benefited equity investors. 7. D. Interest rate risk, credit risk and foreign currency risk are the primary risks that face all bond holders. Though credit risk or risk of default may be perceived to be the greatest risk, prices in many fixed-income sectors already reflect extreme default rate scenarios. Thus, investors may find adjusted yields to maturity for bonds quite compelling. 8. D. Unlike fixed-rate bonds, the value of floating-rate loans is generally not affected by changes in interest rates. That's because loan rates reset regularly to maintain a fixed spread over widely accepted base rates, such as the London-Interbank Offered Rate. This is used by banks worldwide as a base for loans to large commercial and industrial companies and is generally quoted for 30, 60 and 90 days. 9. C. High-yield bonds are generally unsecured and rank junior to floating-rate bank loans. 10. B. A widely accepted portfolio allocation for the average "moderate" investor would be 60 percent stocks and 40 percent bonds. While, during market volatility, portfolio allocations may be pushed out of balance by market shifts, the historical basis for maintaining a diversified portfolio holds true. Investors should consult their financial advisor about taking advantage of dramatic swings in asset performance to rebalance portfolios for risk and tax purposes.

Your Income IQ

8-10: "Fixed-Income Fellow"
5-7: "Fixed-Income Friend"
0-4: "Fixed-Income Freshman"

This quiz comes from the experts at Eaton Vance Corp., a Boston-based investment management firm, traded on the New York Stock Exchange under the symbol EV.

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