# Fixed Income
# High Net Worth Report

Personalized

Dear BondView Client,

Here is your customized portfolio report which provides a comprehensive review of the financial health of your portfolio. Any portfolio should meet the goals of the individual investor as measured by risk verses return. This report details the composition of your bond portfolio from three perspectives:

1) Evaluation:  A report card format using common-sense criteria to evaluate your bond portfolio. We use our patented impartial knowledge based expert system to evaluate your portfolio across the following six categories:

A) Credit Risk
B) Interest Rate Risk
C) Income Stability
D) Market Sector
E) Issuer Diversity
F) Geography Distinction

2) Overview - A high net worth summary that provides the same professional quality review that high net-worth individuals enjoy but without the $20 mil net-worth requirement.  Included are portfolio characteristics such as market sectors analysis, monthly income, annual maturities, diversity by state and issuer, top 10 holdings and insured bonds.

3) Portfolio Details - A snapshot view of your bonds across multiple brokerage accounts detailing gains & losses, market values, accrued interest, estimated income, yields, ratings, coupons, issuer news and more.

Together these reports will help you evaluate your portfolio to determine if your investment goals are being met by presenting your portfolio's risk and return characteristics. Risk applies primarily to potential issuer defaults, interest rate changes and the diversification of your holdings. Return applies primarily to the stability of the yield income stream and the return of capital upon maturity.

We hope this report provided you actionable information to help you optimize the allocation of bonds in your portfolio to meet your investment objectives.  Please contact us with your feedback so that we can improve the type of information that you need.

Sincerely,

*The BondView Team*

A A- B+ B **B-** C C- F

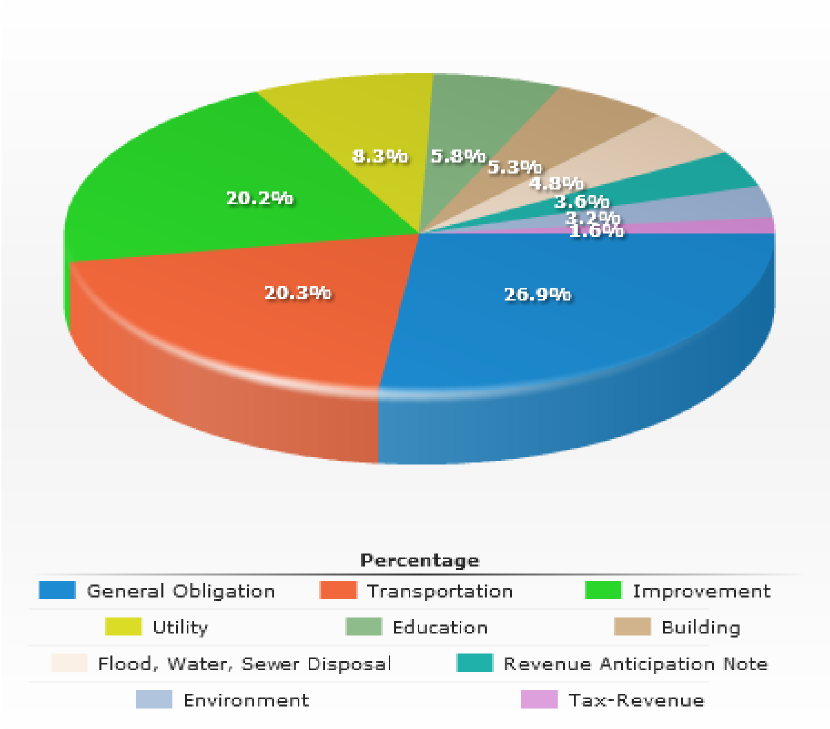
## REPORT CARD SUMMARY

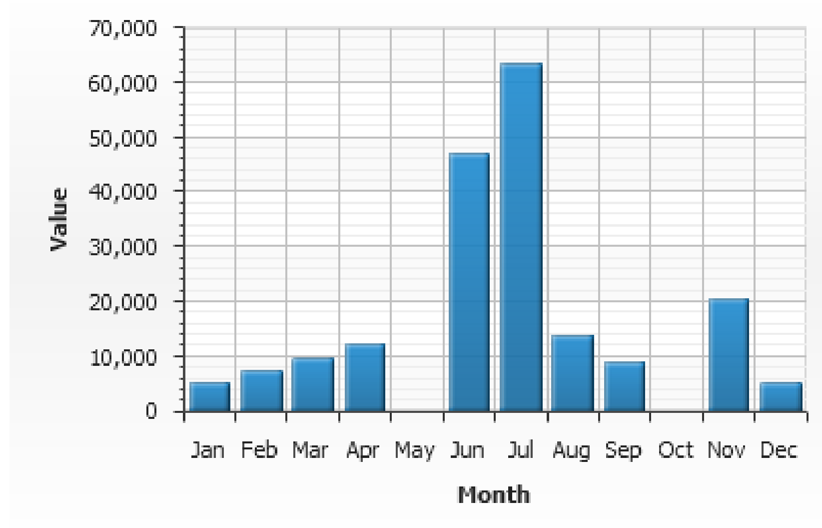
| Subject | Grade | Reason |
| --- | --- | --- |
| Market Rating | C | Market price based credit rating<br>Your Market Rating score is C, that means your portfolio contains bonds, as a group, that may have moderate exposure to default risk. Default risk is the risk that an issuer will not be able to pay investors their coupon payments or repay the principal at maturity. You should determine how you can restructure your portfolio to include less credit risky investments. For example, replacing low credit quality bonds that mature with higher credit quality bonds. |
| Duration | F | Long dated bonds are usually subject to more volatility as interest rates change.<br>Your Duration score is F, that means your portfolio contains bonds, as a group, that may have long durations, and consequently relatively high exposure to interest rate risk. Interest rate risk means that rate increases could result in lower bond prices that reduce the value of your portfolio.You should consider restructuring your portfolio to include bonds that have shorter durations. |
| Income Stream & Maturity | A- | It's always a good idea to have a regular income stream paid out periodically.<br>Your Income Stream & Maturity score is A-, that means your portfolio contains bonds, as a group, that have coupon payments that should provide a relatively good revenue stream. |
| Market Sector | B | Some types of bonds are better than others.<br>Your Market Sector score is B, that means your portfolio contains bonds, as a group, that are in market sectors that have had a somewhat good history of reliably meeting their obligations to bond holders. If you are a conservative investor you should consider restructuring your portfolio to determine where you can include bonds from the sectors that have had a better payment history and fewer defaults. |
| Diversification | C | It's not wise to have too many eggs in one basket.<br>Your Diversification score is C, that means your portfolio is somewhat diversified, with respect to issue diversification, with 50% to 75% of your bonds being unique. That means you may have some exposure to bonds that may be subject to default or negative price movement. You should consider restructuring your portfolio to determine where you can include a higher percentage of unique bonds. |
| Yield | A | Biggest bang for the buck<br>Your Yield score is A, that means your portfolio contains bonds, as a group, that are in the highest one- |

| Subject | Grade | Reason |
|---|---|---|
| | | third of yields for bonds of similar maturity, market rating, type (General Obligation or Revenue), and state tax treatment. |

| | |
|---|---|
| Total Grade | B- |

## BONDS BY MARKET SECTOR




## PORTFOLIO CHARACTERISTICS

As of 02/04/2012

| | |
|---|---|
| Cost Basis | $4,277,436.94 |
| Market Value | $4,454,726.97 |
| Accrued Interest | $52,463.68 |
| Total Market Value | $4,507,190.65 |
| Net Unrealized Gain/Loss | $229,753.71 |
| Average Coupon | 0.047% |
| Projected Annual Income | $199,379.19 |
| Average Current Yield | 4.529% |
| Average Maturity | 13.170 |
| Number of Holdings | 44 |
| Average Bond Price | $97,214.48 |
| Market Rating | 2 |

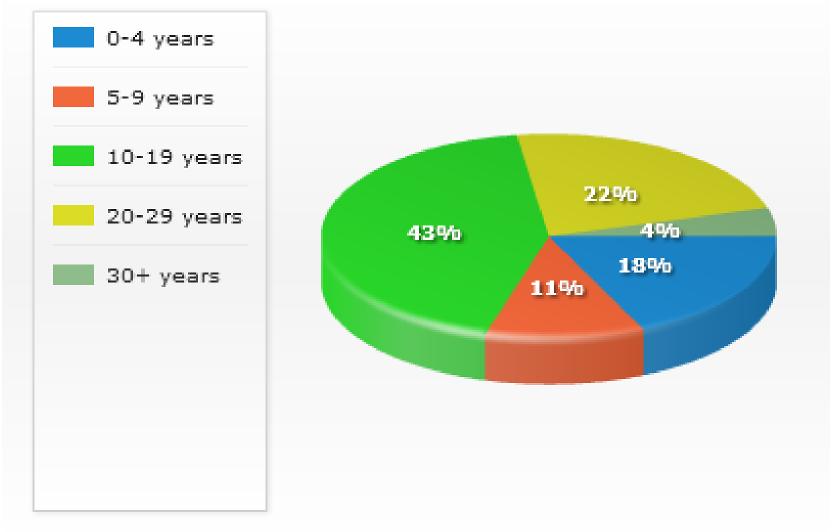
## INCOME AND MATURITY

## TOP 10 ISSUERS

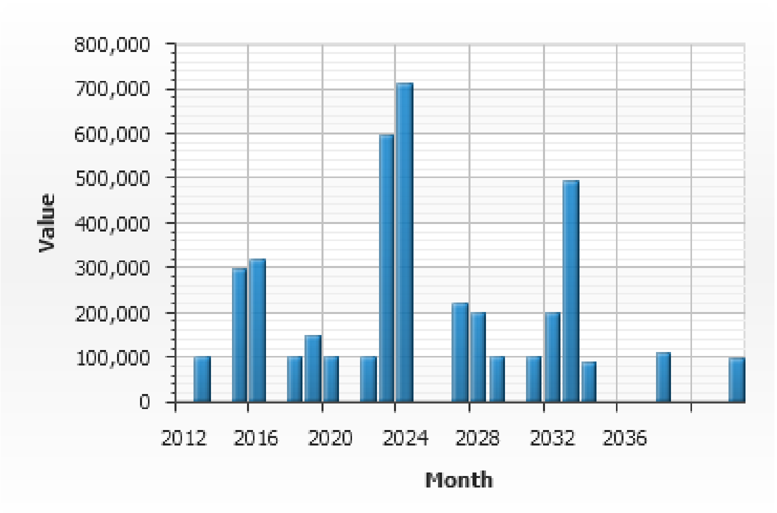
| Issuer | % of Portfolio |
|---|---|
| NEW YORK N Y SER A (NY)* | 16.30% |
| TRIBOROUGH BRDG & TUNL AU | 9.81% |
| PUERTO RICO COMWLTH HWY & | 7.07% |
| TSASC INC N Y REV TOB SET | 5.08% |
| PUERTO RICO COMWLTH UNREF | 4.70% |
| NEW YORK N Y UNREFUNDED B | 4.67% |
| NEW YORK ST DORM AUTH LEA | 4.65% |
| LONG ISLAND PWR AUTH N Y | 4.64% |
| NEW YORK ST TWY AUTH HWY | 4.60% |
| PUERTO RICO ELEC PWR AUTH | 4.60% |

## DIVERSITY BY INSURANCE CO.

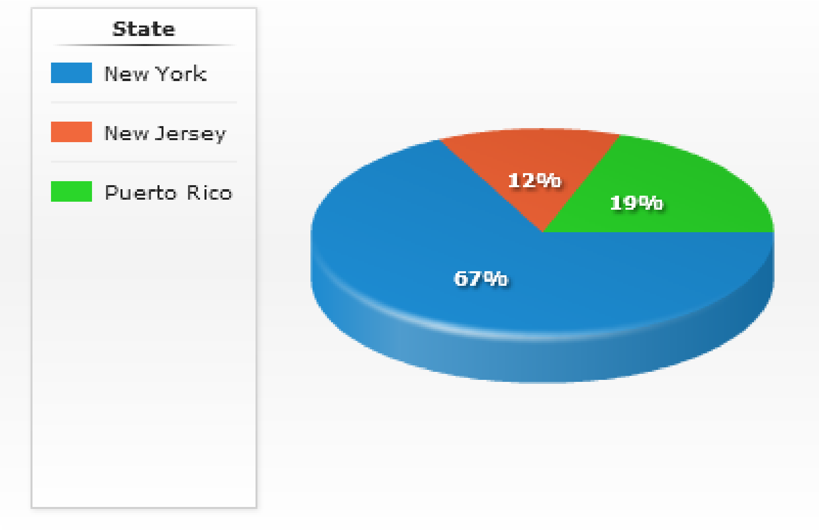
## MATURITY




## MATURITY DISTRIBUTION



## DIVERSITY OF ISSUERS




| Issuer | # Issues | Est. Market Value | Annual Income | % of Portfolio |
|---|---|---|---|---|
| NEW YORK N Y SE | 7 | $739,296 | $31,396.380 | 16.30% |
| TRIBOROUGH BRDG | 4 | $421,447 | $20,427.120 | 9.81% |
| PUERTO RICO COM | 6 | $308,235 | $14,883.290 | 7.07% |
| TSASC INC N Y R | 1 | $206,880 | $11,961.400 | 5.08% |
| PUERTO RICO COM | 2 | $203,369 | $10,055.510 | 4.70% |
| NEW YORK N Y UN | 2 | $214,815 | $10,484.780 | 4.67% |
| NEW YORK ST DOR | 1 | $204,224 | $7,462.950 | 4.65% |
| LONG ISLAND PWR | 2 | $212,379 | $8,925.680 | 4.64% |
| NEW YORK ST TWY | 2 | $203,385 | $7,621.470 | 4.60% |
| PUERTO RICO ELE | 3 | $208,384 | $9,711.410 | 4.60% |
| NEW YORK ST ENV | 1 | $205,120 | $7,996.150 | 4.53% |
| NEW YORK N Y CI | 2 | $203,146 | $8,765.830 | 4.42% |
| NEW YORK ST DOR | 1 | $119,372 | $8,757.810 | 2.78% |
| NEW HARTFORD N | 1 | $103,147 | $3,500.000 | 2.34% |
| CENTRAL ISLIP N | 1 | $100,877 | $3,750.000 | 2.34% |
| NEW YORK ST DOR | 1 | $105,830 | $2,500.000 | 2.34% |
| NEW YORK ST TWY | 1 | $101,842 | $4,399.780 | 2.34% |
| NEW YORK ST TWY | 1 | $107,339 | $4,582.110 | 2.33% |
| NEW YORK N Y CI | 1 | $106,632 | $4,477.100 | 2.33% |
| ALBANY N Y MUN | 1 | $103,288 | $4,970.000 | 2.32% |
| NEW YORK N Y CI | 1 | $119,748 | $5,093.740 | 2.32% |
| METROPOLITAN TR | 1 | $105,877 | $4,968.100 | 2.32% |
| PUERTO RICO IND | 1 | $50,095 | $2,688.580 | 1.17% |

## PORTFOLIO DETAILS

| CUSIP | Name | Estimated Price | Market Value | Quantity | Coupon | Current Yield | Maturity Date | Accrued Interest | Estimated Income | Cost | Gain/Loss | Market Rating |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 01244QBM7 | ALBANY N Y MUN WTR FIN AUTH SER B | $103.29 | $103,287.96 | 100 | 5.0% | 4.841% | 12/01/2033 | $1,615.93 | $4,970.00 | $99.400 | $3,887.96 | ★★☆☆☆ |
| 153753FC7 | CENTRAL ISLIP N Y UN FREE SCH SER A | $100.88 | $100,877.17 | 100 | 3.8% | 3.717% | 06/15/2020 | $1,075.82 | $3,750.00 | $100.000 | $877.17 | ★★★☆☆ |
| 542690VD1 | LONG ISLAND PWR AUTH N Y ELEC GEN-SER C | $103.50 | $103,500.00 | 100 | 5.0% | 4.831% | 09/01/2033 | $367.47 | $4,954.00 | $99.080 | $4,420.00 | |
| 542690WR9 | LONG ISLAND PWR AUTH N Y ELEC SER A | $108.88 | $108,878.50 | 100 | 4.0% | 3.674% | 09/01/2015 | $294.60 | $3,971.68 | $99.292 | $9,586.50 | ★★★★☆ |
| 59259RRA4 | METROPOLITAN TRANSN AUTH N Y REV SER B (NY)* | $105.88 | $105,877.00 | 100 | 5.0% | 4.722% | 11/15/2023 | $1,836.04 | $4,968.10 | $99.362 | $6,515.00 | ★★★☆☆ |
| 644894GV3 | NEW HARTFORD N Y CENT SCH DIST | $103.15 | $103,147.37 | 100 | 3.5% | 3.393% | 06/15/2018 | $1,004.10 | $3,500.00 | $100.000 | $3,147.37 | ★★★★☆ |
| 64966CDQ1 | NEW YORK N Y FISCAL 2003-SER I (NY)* | $104.22 | $104,214.50 | 100 | 5.0% | 4.798% | 03/01/2033 | $369.99 | $4,988.00 | $99.760 | $4,454.50 | |
| 64966CJC6 | NEW YORK N Y SER J (NY)* | $105.65 | $105,651.00 | 100 | 3.8% | 3.597% | 06/01/2013 | $1,227.39 | $3,775.00 | $99.342 | $6,309.00 | ★★★★☆ |
| 64966CJD4 | NEW YORK N Y SER J (NY)* | $107.53 | $107,526.37 | 100 | 4.3% | 3.953% | 06/01/2016 | $1,384.73 | $4,258.93 | $100.210 | $7,316.37 | ★★★★☆ |
| 64966CJG7 | NEW YORK N Y SER J | $105.37 | $105,374.00 | 100 | 4.6% | 4.365% | 06/01/2023 | $1,492.19 | $4,589.42 | $99.770 | $5,604.00 | ★★★★☆ |
| 64966CNM9 | NEW YORK N Y SER A (NY)* | $108.00 | $108,001.76 | 100 | 4.4% | 4.051% | 08/01/2016 | $682.92 | $4,333.00 | $99.040 | $8,961.76 | ★★★★☆ |
| 64966CNX5 | NEW YORK N Y SER A (NY)* | $105.43 | $105,428.00 | 100 | 4.8% | 4.505% | 08/01/2023 | $745.05 | $4,727.20 | $99.520 | $5,908.00 | |
| 64966CNY3 | NEW YORK N Y SER A (NY)* | $103.10 | $103,100.00 | 100 | 4.8% | 4.607% | 08/01/2024 | $744.67 | $4,724.83 | $99.470 | $3,630.00 | ★★★☆☆ |
| 64966F5B6 | NEW YORK N Y PREREFUNDED-J | $107.09 | $107,089.50 | 100 | 5.3% | 4.902% | 06/01/2028 | $1,709.02 | $5,256.30 | $100.120 | $6,969.50 | |
| 64966F5C4 | NEW YORK N Y UNREFUNDED BALANCE-J | $107.73 | $107,725.72 | 100 | 5.3% | 4.873% | 06/01/2028 | $1,699.97 | $5,228.48 | $99.590 | $8,135.72 | ★★☆☆☆ |
| 64970KFS1 | NEW YORK N Y CITY MUN WTR FIN SER A | $100.96 | $100,963.00 | 100 | 4.8% | 4.705% | 06/15/2031 | $1,362.84 | $4,750.48 | $100.010 | $953.00 | ★★★★☆ |
| 64970KG68 | NEW YORK N Y CITY MUN WTR FIN FISCAL 2004-C-AMBAC TCRS-BNY | $102.18 | $102,183.33 | 100 | 4.5% | 4.404% | 06/15/2034 | $1,151.94 | $4,015.35 | $89.230 | $12,953.33 | |
| 64971KPG5 | NEW YORK N Y CITY TRANSITIONAL FUTURE TAX SECD-SER E | $106.63 | $106,632.31 | 100 | 4.5% | 4.220% | 02/01/2022 | $705.63 | $4,477.10 | $99.491 | $7,141.31 | ★★★★☆ |
| 64972FXL5 | NEW YORK N Y CITY MUN WTR FIN FISCAL 2009-SER A | $119.75 | $119,747.50 | 100 | 5.1% | 4.280% | 06/15/2019 | $1,461.32 | $5,093.74 | $99.390 | $20,357.50 | |
| 64982PWB4 | NEW YORK ST DORM AUTH LEASE COURT FACS-SER A | $102.11 | $204,224.26 | 200 | 0.0% | 3.672% | - | $2,758.05 | $7,462.95 | $99.506 | $5,212.26 | ★★★★★ |
| 649831SZ8 | NEW YORK ST DORM AUTH REVS JUDICIAL FACS LEASE | $119.37 | $119,372.00 | 100 | 7.4% | 6.178% | 07/01/2016 | $2,118.06 | $8,757.81 | $118.750 | $622.00 | ★★★☆☆ |
| 64985WT61 | NEW YORK ST ENVIRONMENTAL FACS REVOLVING FDS-POOLED FING-F | $102.56 | $205,120.00 | 200 | 4.1% | 4.022% | 07/15/2024 | $1,629.65 | $7,996.15 | $96.923 | $11,274.00 | ★★★☆☆ |
| 650013K79 | NEW YORK ST TWY AUTH HWY & SECOND GEN-SER B | $103.10 | $103,099.16 | 100 | 3.5% | 3.395% | 04/01/2015 | $1,698.44 | $3,453.49 | $98.671 | $4,428.16 | |
| 650013L94 | NEW YORK ST TWY AUTH HWY & SECOND GEN-SER B | $100.29 | $100,286.00 | 100 | 4.3% | 4.238% | 04/01/2023 | $2,049.82 | $4,167.98 | $98.070 | $2,216.00 | ★★★★☆ |
| 650014BS1 | NEW YORK ST TWY AUTH SECOND SER A | $107.34 | $107,338.81 | 100 | 4.6% | 4.285% | 04/01/2023 | $2,253.49 | $4,582.11 | $99.611 | $7,727.81 | ★★★★☆ |
| 650028DF7 | NEW YORK ST TWY AUTH ST PERS TRANSPORTATION-SER A | $101.84 | $101,842.00 | 100 | 4.4% | 4.320% | 03/15/2023 | $157.14 | $4,399.78 | $99.995 | $1,847.00 | |
| 74514LAL1 | PUERTO RICO COMWLTH PREREFUNDED-PUB IMPT | $103.22 | $129,025.06 | 125 | 5.0% | 4.844% | 07/01/2024 | $1,519.26 | $6,281.88 | $100.510 | $3,387.56 | |
| 74514LBG1 | PUERTO RICO COMWLTH UNREFUNDED BAL-PUB IMPT | $99.13 | $74,343.75 | 75 | 5.0% | 5.044% | 07/01/2024 | $912.64 | $3,773.63 | $100.630 | $-1,128.75 | ★★★☆☆ |

| CUSIP | Name | Estimated Price | Market Value | Quantity | Coupon | Current Yield | Maturity Date | Accrued Interest | Estimated Income | Cost | Gain/Loss | Market Rating |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 745190DH8 | PUERTO RICO COMWLTH HWY & SER A-MBIA IBC | $94.44 | $94,438.33 | 100 | 4.8% | 5.030% | 07/01/2038 | $1,134.88 | $4,692.53 | $98.790 | $-4,351.67 | |
| 745190H76 | PUERTO RICO COMWLTH HWY & UNREFUNDED BAL-SER A | $87.00 | $8,700.00 | 10 | 5.0% | 5.747% | 07/01/2038 | $112.27 | $464.20 | $92.840 | $-584.00 | |
| 745190J90 | PUERTO RICO COMWLTH HWY & PREREFUNDED-SER G | $107.87 | $75,510.40 | 70 | 5.0% | 4.635% | 07/01/2033 | $833.69 | $3,447.15 | $98.490 | $6,567.40 | |
| 745190K23 | PUERTO RICO COMWLTH HWY & PREREFUNDED-SER G | $107.81 | $69,861.10 | 65 | 5.0% | 4.638% | 07/01/2042 | $792.05 | $3,274.99 | $101.080 | $4,361.26 | |
| 745190K64 | PUERTO RICO COMWLTH HWY & UNREFUNDED BAL-SER G | $95.07 | $28,519.35 | 30 | 5.0% | 5.260% | 07/01/2033 | $345.00 | $1,426.50 | $95.100 | $-10.65 | |
| 745190K72 | PUERTO RICO COMWLTH HWY & UNREFUNDED BAL-SER G | $97.52 | $31,205.92 | 32 | 5.0% | 5.127% | 07/01/2042 | $381.62 | $1,577.92 | $98.620 | $-352.48 | |
| 74526QAR3 | PUERTO RICO ELEC PWR AUTH PWR SER NN | $100.00 | $100,000.00 | 100 | 4.8% | 4.750% | 07/01/2033 | $1,123.96 | $4,647.40 | $97.840 | $2,160.00 | |
| 74526QNL2 | PUERTO RICO ELEC PWR AUTH PWR PREREFUNDED-SER NN | $108.18 | $32,453.10 | 30 | 5.1% | 4.738% | 07/01/2029 | $367.42 | $1,519.20 | $98.810 | $2,810.10 | |
| 74526QNP3 | PUERTO RICO ELEC PWR AUTH PWR UNREFUNDED BALANCE-SER NN | $108.47 | $75,931.10 | 70 | 5.1% | 4.725% | 07/01/2029 | $857.30 | $3,544.81 | $98.810 | $6,764.10 | |
| 745272BW3 | PUERTO RICO INDL TOURIST EDL ANA G MENDEZ UNIV SYS PJ | $100.19 | $50,095.00 | 50 | 5.4% | 5.365% | 02/01/2019 | $423.74 | $2,688.58 | $100.040 | $75.00 | |
| 89602NBG8 | TRIBOROUGH BRDG & TUNL AUTH N REF-SER E | $102.17 | $102,166.67 | 100 | 5.0% | 4.894% | 11/15/2032 | $1,834.52 | $4,964.00 | $99.280 | $2,886.67 | |
| 89602NEQ3 | TRIBOROUGH BRDG & TUNL AUTH N SUB-SER A | $103.89 | $218,161.65 | 210 | 4.8% | 4.572% | 11/15/2027 | $3,861.04 | $10,447.52 | $104.737 | $-1,786.05 | |
| 89602NGZ1 | TRIBOROUGH BRDG & TUNL AUTH N PREREFUNDED-GEN PURP-SER A | $101.19 | $86,011.50 | 85 | 5.0% | 4.941% | 01/01/2032 | $1,030.94 | $4,262.75 | $100.300 | $756.50 | |
| 89602NHA5 | TRIBOROUGH BRDG & TUNL AUTH N UNREFUNDED BAL-GEN PURP-SER A | $100.71 | $15,106.82 | 15 | 5.0% | 4.965% | 01/01/2032 | $182.08 | $752.85 | $100.380 | $49.82 | |
| 898526CV8 | TSASC INC N Y REV TOB SETTLEMENT ASSET-BKD-SER 1 | $103.44 | $206,880.00 | 200 | 5.5% | 5.317% | 07/15/2024 | $2,437.79 | $11,961.40 | $108.740 | $-10,600.00 | |
| 649902YF4 | NEW YORK ST DORM AUTH ST PERS SER D | $105.83 | $105,830.00 | 100 | 2.5% | 2.362% | 06/15/2015 | $717.21 | $2,500.00 | $100.000 | $5,830.00 | |

A A- B+ **B** B- C C- F

## REPORT CARD DETAILS

| Subject | Grade | Reason |
|---|---|---|
| Market Rating | C | Market price based credit rating |

Your Market Rating score is C, that means your portfolio contains bonds, as a group, that may have moderate exposure to default risk. Default risk is the risk that an issuer will not be able to pay investors their coupon payments or repay the principal at maturity. You should determine how you can restructure your portfolio to include less credit risky investments. For example, replacing low credit quality bonds that mature with higher credit quality bonds.

Research has shown that bond rating systems based on recent bond pricing, using actual trade data, are more accurate than the ratings based solely on company research. Many researchers and analysts in the financial community believe, and have shown using statistical techniques, that the market price, reflected in recent bond prices, is a more accurate indicator of the current and future value of a bond.

A bond's rating should be based on the bond's risk and monetary return. That is precisely how the Market Implied Rating is calculated. (In this case, the risk is related to the risk of default by the issuer, not interest rate risk, which is dealt with by duration.)

Each bond's % yield, that is Yield to Maturity (YTM)*, which is its rate of return, is calculated based on its recent price, coupon payments, and maturity date. The bond's YTM is then compared to the yield of a treasury bond of equivalent maturity. The yield of the treasury should always be lower than the yield of the bond, since the treasury is considered (default) risk free. Otherwise, why should an investor buy a bond, which has a degree of risk, if the investor could buy a treasury with no risk and a higher return?

The bond yield is subtracted from the yield of the treasury of equivalent maturity, the resulting spread represents the extent to which the market perceives the bond is risky. The larger the spread the greater is the perceived risk.

Bonds are rated from five stars (best) to none. Bonds with lower spreads (less risk) are given more stars than bonds with higher spreads (more risk). Ratings are calculated frequently to ensure they reflect the most current market factors.

| Subject | Grade | Reason |
| --- | --- | --- |
| | | * Some bonds are subject to a call date by their issuers that is earlier than the original maturity. The yield, called the Yield to Call (YTC), is generally lower than the YTM based on the original maturity. When this occurs, the rating will be based on the lower of the two returns, called the Yield to Worst. |
| Duration | F | Long dated bonds are usually subject to more volatility as interest rates change. |

Your Duration score is F, that means your portfolio contains bonds, as a group, that may have long durations, and consequently relatively high exposure to interest rate risk. Interest rate risk means that rate increases could result in lower bond prices that reduce the value of your portfolio.You should consider restructuring your portfolio to include bonds that have shorter durations.

Duration is the time it takes for an investor to be repaid the price for a bond by the bond's total cash flows.

For example, suppose the current price of a bond is $970, maturity is in three years, the annual coupon payment is $50, and the current market interest rate is 7%. The present worth of the coupon payments and payment of the $1,000 principal is $2,686.23. The duration, calculated by dividing the present worth by the current price is:

$2,686.23 / $970 = 2.77 years

Bonds that pay coupon interest will always have a duration less than maturity. Zero coupon bonds, with no coupon payments, have a duration equal to maturity.

Using duration, it's possible to approximate how much a bond's price is likely to rise or fall when interest rates change. As interest rates increase, a bond's price decreases.

Duration measures how quickly a bond will repay its price. The longer it takes, the greater exposure the bond has to changes in the interest rate environment. Therefore, the longer the duration, the higher is the interest rate risk (as opposed to default risk).

Here are some of factors that affect a bond's duration:
Time to maturity: Consider two bonds that each cost $1,000 and yield 5%. A bond that matures in one year would more quickly repay its true cost than a bond that matures in 10 years. As a result, the shorter-maturity bond would have a lower duration and less risk. The longer the maturity, the higher the duration, and the greater the interest rate risk.
Coupon rate: A bond's payment is a key factor in calculating duration. If two otherwise identical bonds pay different coupons, the bond with the higher coupon will pay back its original cost quicker than the lower-yielding bond. The higher the coupon, the lower the duration, and the lower the interest rate risk.

Knowing the duration of a bond, or a portfolio of bonds, gives an investor an advantage in two

| Subject | Grade | Reason |
|---|---|---|
| | | important ways:<br>Speculating on interest rates: Investors who anticipate a decline in market interest rates, as a result of, for instance, a stimulative rate cut by the Federal Reserve, would try to increase the average duration of their bond portfolio. Likewise, investors who expect the Fed to raise interest rates would want to lower their average duration.<br>Matching bond selection to your risk: When selecting from bonds of different maturities and yields, duration allows you to quickly determine which bonds are more sensitive to changes in market interest rates, and to what degree. |
| Income Stream & Maturity | A- | It's always a good idea to have a regular income stream paid out periodically.<br>Your Income Stream & Maturity score is A-, that means your portfolio contains bonds, as a group, that have coupon payments that should provide a relatively good revenue stream.<br>For a bond investor seeking a stable income, bond laddering is the best strategy. A ladder strategy minimizes the effects of fluctuations in interest rates on the value of the portfolio. It also provides a steady cash flow.<br><br>A bond ladder is a portfolio consisting of bonds with different maturities.<br><br>For example, suppose an investor has $100,000 to invest. With the ladder approach, the investor could buy 10 different bonds with face values of $10,000. Each bond, however, would have a different maturity. One bond could mature in one year, another in two years and the others every year spaced out evenly over the remaining eight years. It is called a ladder strategy because the maturities appear to be spaced out like the rungs of a ladder.<br><br>Two reasons to use the ladder strategy are:<br><br>By laddering the maturity dates, you won't be locked into one particular bond for a long duration. A problem with locking yourself into a bond for a long period of time is that you can't protect yourself from fluctuations in interest rates. Suppose you invested the entire $100,000 into one bond with a coupon of 5% and maturity of 10 years, it wouldn't be possible to take advantage of increasing or decreasing interest rates during the 10 year interval. By using a bond ladder, fluctuations in the market are smoothed out because a bond is maturing every year.<br>The second reason for using a bond ladder is that it provides investors with the ability to adjust cash flows to match their income requirements. With the $100,000 investment, you can get a monthly income based upon the coupon payments from the laddered bonds by picking ones with different coupon dates. This is particularly important for retirees who depend on a reliable periodic income. |
| Market Sector | B | Some types of bonds are better than others.<br>Your Market Sector score is B, that means your portfolio contains bonds, as a group, that are in |

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| | | market sectors that have had a somewhat good history of reliably meeting their obligations to bond holders. If you are a conservative investor you should consider restructuring your portfolio to determine where you can include bonds from the sectors that have had a better payment history and fewer defaults.<br>There are basically two types of municipal bonds issued by state and local governments: 1) General Obligation Bonds and 2) Revenue Bonds. These are defined in detail below.<br><br>Each type of bond has a higher or lower risk of default, that is, non-payment of interest or principal, based on the way the debt is supported.<br><br>While a bond's status can change from good to bad due to a credit downgrade, it can also change due to positive market events like a refinancing which results in the best of status of all, the gold plated Pre Refunded bond.<br><br>Pre-Refunded bonds are the safest of  all since they are not backed by their issuer, but are backed by U.S. Treasury bonds.<br><br>Pre-refunded municipal bonds are created when municipalities issue new debt to refinance debt issued when interest rates were higher. This is analogous to a consumer refinancing their home mortgage when interest rates drop. Once the refinancing is completed the issuer uses the proceeds of the new issue to purchase collateral, such as U.S. Treasury securities, and places these securities in an escrow account. The income from the collateral is then used to pay interest and principal on the original debt until the bond is called. The call date and price are set when the refinancing is completed.<br><br>Since they are backed by Treasury instruments, they are as safe as but generally pay a higher premium than Treasuries. An additional advantage over other bond types is that they are generally exempt from federal and state taxes, which, in effect, increases their return.<br><br>Next in order of default risk are General Obligation (GO) bonds. These bonds are backed by the full faith and credit of the states and localities that issue them.<br><br>While the issuers in theory have "unlimited" taxing authority, in reality, it may be a problem to enact these taxing powers and defaults while rare have occurred. For example, New York in 1975 defaulted on its GO Bonds, as did Orange County in California which declared bankruptcy in 1994.<br>GO bonds give municipalities a tool to raise funds for projects that will not provide direct sources of revenue, such as roads and bridges, parks and equipment. As a result, GO bonds are typically used to fund projects that will serve the entire community.<br>Next in order of default risk are Revenue bonds which are used to fund projects that will serve specific populations who provide revenue to repay the debt through user fees and use taxes, such as |

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| | | hospitals, universities, airports, toll roads, and public utilities.<br>These bonds are considered riskier than GO bonds since they depend on the revenues from the projects they fund to repay the bond debt, rather than the taxing authority of state or local government.<br>Revenue bonds are backed can be categorized into:<br><br>A) Basic infrastructure such as gas & electricity production and transmission, water & sewer infrastructure, or transportation infrastructure (i.e. toll roads, tunnels and bridges).<br><br>B) Specific purposes such as higher education, multifamily housing, hospitals, nursing homes, congregate care retirement communities, assisted living facilities, sales tax revenue, cigarette/liquor tax ("sin tax" collections), tobacco settlement proceeds, or for-profit entities using conduit financing to encourage local economic or environmental improvements.<br>Because they are not backed by the full faith and credit of a municipality, the way GO bonds are, they carry a somewhat higher default risk, but pay higher yields in return. To evaluate a revenue bond, it is important to understand the type and cash flow of the project that will be providing the revenue. |
| Diversification | C | It's not wise to have too many eggs in one basket.<br>Your Diversification score is C, that means your portfolio is somewhat diversified, with respect to issue diversification, with 50% to 75% of your bonds being unique. That means you may have some exposure to bonds that may be subject to default or negative price movement. You should consider restructuring your portfolio to determine where you can include a higher percentage of unique bonds. |
| - CUSIP Diversification | A | Your CUSIP Diversification score is A, that means your risk exposure to the default of any single CUSIP is minimal, with 75% to 100% of your portfolio diversified with multiple CUSIPS. This is calculated by dividing the total dollar value of your portfolio by the highest total dollar vallue of all bonds with a single CUSIP. That means your exposure to CUSIPS that may default is low. |
| - Dollar Value Diversification | A | Your Dollar Value Diversification score is A, that means your risk exposure to the default of any single bond issue is minimal, with less than 5% of your portfolio concentrated in one issue. This is calculated by dividing the total dollar value of your portfolio by the highest total dollar value of an individual CUSIP. That means your exposure to bonds that may be subject to default or negative price movement is low. |
| - Geographic Diversification | A | Your Geographic Diversification score is A, that means your risk exposure due to a concentrated position in any one geographic area (state, city) is minimal, with at most, less than 5% of your portfolio concentrated in one issue. This is calculated by dividing the total dollar value of your portfolio by the highest total dollar value of all bonds in a single geographic entity. That means your exposure to a downturn in economic conditions in a single geographic area is low. |

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| - Issuer Diversification | C | Your Issuer Diversification score is C, that means you may have critical risk exposure to the default of any single issuer, with 70% to 90% of your portfolio concentrated in with a single issuer. This is calculated by dividing the total dollar value of your portfolio by the highest total dollar value of all bonds with a single issuer. That means your exposure to issuers that may default is potentially very high. You should consider restructuring your portfolio and determine where you can increase the percentage of multiple issuers.<br>This relates to the old adage "don't put all your eggs in one basket". While simple as this may sound, underlying it is a fundamental consideration in investing. That is the issue of investment uncertainty or risk.<br><br>Just as one cannot predict with 100% certainty the outcome of a horse race, one cannot predict with certainty if a bond issuer will or will not default on payments. That is why it is unwise to keep a majority, much less all, of one's money in a single investment issue.<br><br>In the recent past there have been tragic examples of employees whose 401K accounts were wiped out because they had all their money in their employer's stock at the time their employer collapsed. A notable example is Enron.<br><br>Diversity is the key to reducing risk in any portfolio, including bonds. By diversifying within a portfolio, your overall investment is less volatile and less likely to be affected by the performance of one single investment. |
| Yield | A | Biggest bang for the buck<br>Your Yield score is A, that means your portfolio contains bonds, as a group, that are in the highest one-third of yields for bonds of similar maturity, market rating, type (General Obligation or Revenue), and state tax treatment.<br>Yield is considered a key factor in investing. While an investor should evaluate several factors that constitute his financial objectives including risk, steady income stream and diversification - the return, or yield, on a bond investment is a primary concern. All other investment factors being equal, an investor should choose the higher yielding investment rather than a lower yielding investment. But evaluating those â€œotherâ€• factors makes comparing the yields of different bonds complicated.<br><br>To evaluate yields, bonds were grouped together into equivalency classes to ensure yields are compared to other bonds with similar characteristics. Just as we wouldnâ€™t expect the prices of two homes in different neighborhoods to be a fair comparison, we canâ€™t compare bonds that have different characteristics. The main characteristics chosen to provide an â€œapples to applesâ€• bond yield comparison include: |

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| | | 1. The market rating â€“ equal number of assigned stars.<br>2. The type of bond - GO or Revenue.<br>3. The individual state tax treatment of municipal bonds categorized into various criteria. |

| Total Grade | B |
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