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Thought For the Month

“The Ups and Downs of Investing”

Management of the AquilaSM Group of Funds well recognizes that it is much easier to accept variations with your investment when you understand the forces influencing them.

As most of our shareholders are aware by now, interest rates and the share price of the bond funds in the Aquila Group are inversely related - as interest rates decline, the share price of the bond funds in the Aquila Group increases and as interest rates increase (as is currently the case), the funds' share price declines. This is an inevitable dynamic of the economic cycle. And, since your investment in one of the Aquila bond funds should be viewed as long-term in nature, you are bound to experience both the ups and downs of investing.

While we cannot control the direction in which interest rates will move, or the resulting effect such changes will have on your fund's share price, we do take steps to minimize the volatility of such movement. We believe that having the fund's portfolio constructed of high quality securities, having both short and long-term maturities, will hopefully help to lessen the fluctuations in the overall performance of your investment. Thus, our hope is to mitigate the share price movement over the life of your investment – making the ups and downs less dramatic than with other types of investments.

What shareholders should further keep in mind is that while your share value may be declining, the per share tax-free dividend you receive each month is simultaneously increasing.

One reason for choosing a professionally managed bond fund, instead of owning individual bonds, is that the portfolio manager strives to keep a balance between share price and dividend distribution so that to the maximum extent possible, what you lose on one end, you may gain on the other, keeping the overall value of your investment relatively stable.

As we have pointed out several times in the past few months, you should examine whether or not investing in a tax-free bond fund makes sense as part of your overall financial planning - without concentrating unduly on what the market is or isn't doing. Whatever your choice, the market will undoubtedly continue to have its ups and downs.

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