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Thought For the Month

“Municipal Bond Fund Investing 101” – 2nd in a Series

Last month we discussed the differences between capital preservation and capital appreciation. We pointed out that most investors in a municipal bond fund would be looking to preserve, or keep, what they have, not necessarily to have their investment grow in value.

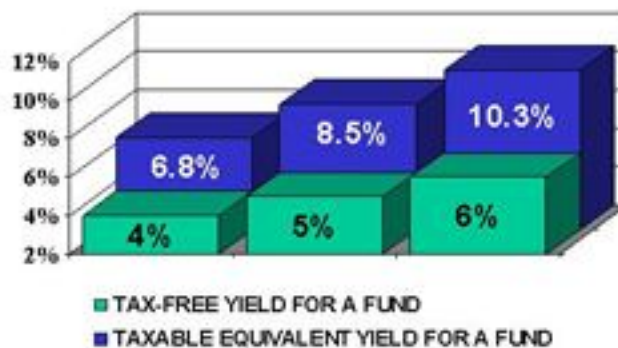
But there has to be more to municipal bond fund investing than just capital preservation. If keeping what you have were your only objective, your piggy bank could serve as just an appropriate depository.

Therefore, it should come as no surprise that another benefit that you gain from a municipal bond fund investment is monthly double tax-free income.

To use an analogy, people who buy a municipal bond fund wouldn't buy a cow hoping to sell it when its market price increased at some future date. They would buy the cow and keep it for its continuing stream of milk. In the case of a municipal bond fund, the continuing stream is in the form of tax-free dividends.

The fund pays you dividends month in and month out - dividends that you can use to help pay living expenses or that can be reinvested in additional shares of the fund, thereby gaining the benefits of compounding.

It is important to recognize that these dividends are double tax-free.* As the chart below illustrates, you would have to earn 8.5% on a taxable investment in order to equal the tax-free level of 5%.



The chart assumes that an investor is in a 36% Federal and 7% state tax bracket. The chart is for illustrative purposes only and is not indicative of past or future performance of any tax-free fund offered by Aquila.

* Some dividends may be subject to Federal and state taxes, including the Alternative Minimum Tax (AMT), for certain investors.

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