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Thought For the Month

“The Primary Types of Municipal Securities”

Over the years, we have found that not all investors are as familiar as others regarding the differences between the primary types of municipal securities.

Essentially, there are two basic types of municipal securities in which the bond funds in the Aquilasm Group of Funds invest – “general obligation” securities and “revenue” securities. While there are also other kinds of municipal securities, these two are the predominant ones that are used.

“General obligation” municipal securities are primarily the kinds that are issued by a state, county, city, town, or other form of municipality. These securities are used to finance the general needs of such municipalities. General obligation securities are secured by the tax-raising power of the specific municipality in terms of its ability to pay interest and repay principal on a timely basis. Thus, these securities are considered to be “backed by the full faith and credit” of the issuer.

The other basic type is “revenue” securities. These securities are issued to finance specific projects, such as a hospital or airport. In this instance, the municipal issuer pledges to the security holder the operating revenues derived from the specific project to pay the interest and repay the principal when due.

While both of these two types of municipal securities are considered as possessing a relatively high level of safety for investors due to their taxing or revenue-raising powers, it is still important to remember that with either of these types of municipal securities, not all issuers are alike.

Accordingly, one must consider the credit rating assigned to the security in order to determine the level of safety for payment of interest and principal when due. In general, higher credit ratings mark those municipal issues which are deemed to have significant cash flow strength to pay interest when due on a timely basis and to redeem the bonds at maturity. Conversely, lower credit ratings tend to indicated more risky investments.

Consideration should be given to the risks of investing including potential loss of value, market risk, interest rate risk, credit risk, and geographic concentration. Insurance on an obligation is intended to mitigate credit risk; it does not insure the market price of the obligation. There is no assurance that any investment will be successful or achieve its investment objectives. For certain investors, some dividends may be subject to Federal and State taxes, including the Alternative Minimum Tax. Consult your professional tax adviser.

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