# Bonding®

Volume 8, Issue 1

June 2008

HENNION & WALSH

It comes down to trust.

# Contents



## The Smart Investor

### Bond Coupons

You may remember clipping bond coupons and mailing them in to receive an interest payment. Electronic bookkeeping replaced coupon clipping two decades ago, but the term coupon is still an important part of the bond investor's vocabulary. A bond's coupon is the annual interest rate paid on the issuer's borrowed money, generally paid out semiannually. The coupon is always tied to a bond's face or par value, and is quoted as a percentage of par. For instance, a bond with a par value of $1,000 and an annual interest rate of 4.5% has a coupon rate of 4.5% ($45).

# Municipal Bond Highlight:

## New Jersey Economic Development Authority Rev Bond 4.75% Due 9/01/2033 @ 100 for a 4.75 YTM

### Summary

This AA- rated revenue bond is for school facility construction throughout New Jersey.

- This municipal bond offering is state and federally tax-free for residents of NJ.
- This bond is callable 9/01/18 at par or $100.00 per bond. The yield-to-maturity (YTM) is 4.75%
- All information as of 6/4/08 and is subject to price change and availability.

*Bonds are subject to interest rate risk. Investors should be aware that bonds will fluctuate in value and may be worth more or less than original value if sold prior to maturity.*

| | | | |
|---|---|---|---|
| Coupon Rate | 4.75 | Yield to Maturity: | 4.75 |
| Maturity: | 9/01/2033 | Yield to Call: | 4.75 |
| Call Date & Call Price: | 9/01/2018 @ 100 | Current yield: | 4.75 |
| Offering Price: | 100.00 | S&P Rating | AA- |
| Quantity: | N/A | Moody Rating | A1 |

## Income Strategies

Hennion & Walsh, Inc. is pleased to provide an extensive list of top income investment strategies. In addition to selected new investment offerings, investors can choose from a wide selection of bonds currently trading in the secondary market.

- Tax-Free Municipal Bonds
- Government Agency Bonds
- Preferred Stocks
- Closed-End Funds
- Mortgage-Backed Securities
- Treasury Securities
- Unit Investment

# Municipal Bonds

*Municipal bonds are subject to interest rate risk. Bond values may decline, if interest rates rise.*

At Hennion & Walsh, we are one of the nation's leading financial services firms specializing in Municipal Bonds. It's our heritage; it's who we are. Count on us to provide you with the most appropriate, high quality municipal bond for your portfolio. Along with expert advice, you will receive exceptional personal service.
That's the hallmark of Hennion & Walsh.

Call Hennion & Walsh to speak to one of our Financial Advisors today:
(800) 836-8240

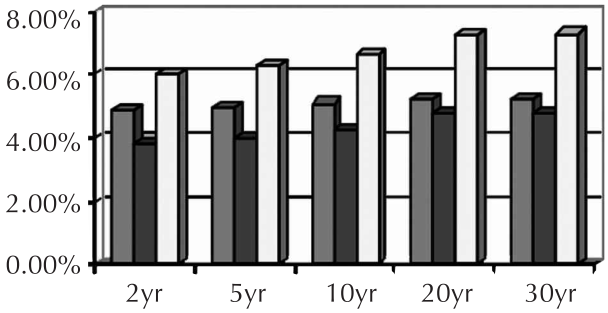
## National Municipal Bonds

| Issuer | Coupon | Maturity | Price | *YTM/YTC | Rating *S&P Moody's* |
|---|---|---|---|---|---|
| Passaic Cnty NJ | 4.375 | 02/01/2017 | 104.875 | 3.71/ | /Aa2 |
| *Callable 2/01/2016 @ 100* | | | | 3.63 | |
| Jefferson Twp NJ | 4.125 | 08/01/2024 | 98.500 | 4.25 | /A1 |
| Tobacco Settlement Fing Corp NJ | 4.750 | 06/01/2034 | 86.500 | 5.74 | BBB/Baa3 |
| Lansingburgh Cent Sch Dist NY Troy | 4.000 | 06/15/2021 | 98.500 | 4.15 | A/A3 |
| New York St Dorm Auth Revs | 5.000 | 07/01/2033 | 103.875 | 4.14/ | AAA/Aaa |
| *Callable 7/01/2013 @ 100* | | | | 4.73 | |
| Metropolitan Transn Auth NY Rev | 4.500 | 11/15/2038 | 99.000 | 4.56 | A/A2 |
| Conneticut St Health & Edl | 5.000 | 07/01/2028 | 105.875 | 4.27/ | AAA/Aaa |
| *Callable 7/01/2018 @ 100* | | | | 4.55 | |
| Miami-Dade Cnty Fla Aviation Rev** | 4.375 | 10/01/2027 | 91.750 | 5.44 | A-/A2 |
| St. Lucie Cnty Fla Sch Dist | 4.4500 | 10/01/2022 | 100.000 | 4.45 | A/A2 |
| Puerto Rico Comwlth | 5.000 | 07/01/2021 | 102.500 | 4.68/ | BBB-/Baa3 |
| *Callable 7/01/2018 @ 100* | | | | 4.74 | |
| Punxsutawney PA Area Sch Dist | 4.400 | 10/15/2030 | 95.750 | 4.70 | A/Baa3 |
| Western Mich Univ Revs | 4.250 | 11/15/2023 | 100.000 | 4.25 | AAA/Aaa |
| Fresno Calif Jt Pwrs Ping Auth Lease Rev | 4.750 | 09/01/2028 | 100.000 | 4.75 | AAA/Aaa |

*All offerings are subject to market conditions and availability. Not all municipal bonds are State and Federally tax-free. These bonds are representative of our current offerings as 6/4/2008.*
*Bonds are subject to interest rate risk. Investors should be aware that bonds will fluctuate in value and may be worth more or less than original value if sold prior to maturity.*
**YTM = Yield to Maturity, YTC = Yield to Call*

# Tax-Free Yield Calculator

| Fed Rate | State Rate | Total Rate | Tax Free Return 2.0% | 3.0% | 3.5% | 4.0% | 4.5% | 5.0% |
|---|---|---|---|---|---|---|---|---|
| 25.0% | **0.0% | 25.0% | 2.66% | 4.00% | 4.66% | 5.33% | 6.00% | 6.66% |
| 28.0% | **0.0% | 28.0% | 2.77% | 4.16% | 4.86% | 5.55% | 6.25% | 6.94% |
| 33.0% | **0.0% | 33.0% | 2.98% | 4.47% | 5.22% | 5.97% | 6.71% | 7.46% |
| 35.0% | **0.0% | 35.0% | 3.07% | 4.61% | 5.38% | 6.15% | 6.92% | 7.69% |
| Tax Brackets | | | Taxable Equivalent Yields | | | | | |




***Taxable Equivalent Yield*
*Source: Bloomberg*

## Government Sponsored Offerings

Government Sponsored Enterprises, known as GSEs, are privately owned corporations created by Congress to provide funding and to help reduce the cost of capital for certain borrowing sectors of the economy such as homeowners, students, and farmers. GSE securities are generally perceived to carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government.

### Government Agency Bonds

**State tax free*

### FNMA Notes

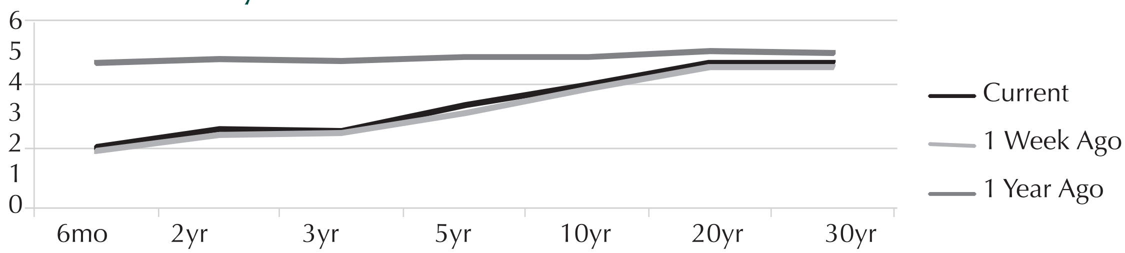
| Issuer | Coupon | Maturity | Price | *YTM/YTC | Rating S&P Moody's |
|---|---|---|---|---|---|
| Federal Home Loan Bank* *Callable 05/29/09* | 4.35 | 05/29/2014 | 100.00 | 4.35/ 4.34 | Aaa/AAA |
| Federal Home Loan Mtg Corp *Callable 12/15/08* | 5.00 | 10/24/2014 | 100.00 | 5.00/ 5.00 | Aaa/AAA |
| Federal Home Loan Mtg Corp *Callable 05/20/08* | 5.00 | 03/26/2018 | 100.00 | 5.00/ 5.00 | Aaa/AAA |
| Federal National Mtg Assn *Callable 06/06/08* | 5.50 | 12/01/2021 | 100.00 | 5.50/ 5.50 | Aaa/AAA |

**Step-up: Coupon =4.0% to 11/10; Reset every 2 1/2 yrs.*

| Issuer | Coupon | Maturity | Price | *YTM/YTC | Rating |
|---|---|---|---|---|---|
| Fannie Notes *callable 05/09* | 4.00 | 05/22/2014 | 100.00 | 4.00/4.00 | Aaa/AAA |
| Fannie Notes** *callable 04/09* | 5.00 | 11/20/2015 | 100.00 | 5.00/5.00 | Aaa/AAA |
| Fannie Notes *callable 05/13* | 5.00 | 05/23/2023 | 100.00 | 5.00/5.00 | Aaa/AAA |
| Fannie Notes *callable 05/09* | 5.40 | 05/21/2038 | 100.00 | 5.40/5.40 | Aaa/AAA |

*All bonds are subject to interest rate risk. Investors should be aware that bond values will fluctuate and the value may be more or less if sold prior to maturity. All offerings as of 6/4/2008 and are subject to market conditions and availability.*

## U.S. Treasury Securities




| Period | 6 mo | 2 yr | 3 yr | 5 yr | 10 yr | 20 yr | 30 yr |
|---|---|---|---|---|---|---|---|
| Current | 1.99 | 2.55 | 2.54 | 3.32 | 4.00 | 4.71 | 4.70 |
| 1 Week Ago | 1.89 | 2.43 | 2.46 | 3.13 | 3.84 | 4.56 | 4.57 |
| 1 Year Ago | 4.76 | 4.89 | 4.82 | 4.95 | 4.92 | 5.10 | 5.02 |

*For illustration purposes only. Past performance is no indication of future results. Source U.S. Department of the Treasury 6/4/2008*

## U.S. Treasuries

| Issuer | Coupon | Maturity | Price | YTM/YTC |
|---|---|---|---|---|
| U.S. Treasury—N/C | 2.625 | 05/15/2010 | 100.125 | 2.55 |
| U.S. Treasury—N/C | 3.500 | 05/15/2013 | 100.8125 | 3.32 |
| U.S. Treasury—N/C | 3.875 | 05/15/2018 | 98.9375 | 4.00 |
| U.S. Treasury—N/C | 4.375 | 02/15/2038 | 94.8125 | 4.70 |

## U.S. Treasury Zero Coupon

| Issuer | Maturity | Price | Yield |
|---|---|---|---|
| U.S. Treasury Strip—N/C | 8/15/2009 | 97.38 | 2.23 |
| U.S. Treasury Strip—N/C | 8/15/2014 | 79.80 | 3.67 |
| U.S. Treasury Strip—N/C | 8/15/2019 | 61.24 | 4.53 |
| U.S. Treasury Strip—N/C | 8/15/2024 | 45.81 | 4.88 |

*All offerings as of 6/4/2008 and are subject to market conditions and availability. U.S. Treasuries are subject to interest rate risk. Investors should be aware that bonds will fluctuate in value and may be worth more or less than original value if sold prior to maturity.*

# DANs-Direct Access Notes

DANs are new issue Corporate bonds—subject to both interest rate and credit risk. If sold prior to maturity, they may be worth more or less than their original cost. All DANs are offered by Prospectus or Offering Circular only. For a Prospectus please call your Investment Professional.

Genworth DirectNotes℠

*GE Life and Annuity Assurance Company referred to as GELAAC, is a stock life insurance company operating under a charter granted by the Commonwealth of Virginia, and the sponsor of this program. GELAAC is a wholly owned indirect subsidiary of Genworth Financial, Inc. Source: InterNotes As of 6/4/2008*

| Issuer | Coupon | Maturity | Price | YTM | Rating *S&P Moody's* |
|---|---|---|---|---|---|
| Genworth DirectNotes | 6.25 | 6/15/2013 | 100.00 | 6.25 | AA-/Aa3 |

**Freddie***Notes*®

*FreddieNotes® are unsecured senior debt offered on a best efforts basis once a week. All of Freddie Mac's rated senior unsecured debt has been given the highest possible credit ratings by Standard & Poor's and Moody's Investor Service of A1+/P1 for short-term obligations and AAA/Aaa for longer-term debt. Source: InterNotes As of 6/4/2008*

| Issuer | Coupon | Maturity | Price | YTM/YTC | Rating *S&P Moody's* |
|---|---|---|---|---|---|
| FHLMC FreddieNotes | 4.00 | 12/15/2012 | 100.00 | 4.00 | Aaa/AAA |
| FHLMC FreddieNotes | 5.00 | 12/15/2012 | 100.00 | 5.00 | Aaa/AAA |
| FHLMC FreddieNotes | 6.00 | 12/15/2017 | 100.00 | 5.00 | Aaa/AAA |
| FHLMC FreddieNotes | 6.00 | 6/15/2028 | 100.00 | 6.00 | Aaa/AAA |

ILFC Notes

*International Lease Finance Corporation (ILFC) is primarily engaged in the acquisition of new commercial jet aircraft and the leasing of those aircraft to airlines throughout the world. In addition to its leasing activities, ILFC regularly sells aircraft from its leased aircraft fleet and aircraft owned by others. ILFC is an indirect wholly owned subsidiary of American International Group, Inc. (AIG) Source: InterNotes As of 6/4/2008*

| Issuer | Coupon | Maturity | Price | YTM/YTC | Rating *S&P Moody's* |
|---|---|---|---|---|---|
| ILFCNotes | 4.80 | 6/15/2010 | 100.00 | 4.80 | A+/A1 |
| ILFCNotes | 5.05 | 6/15/2011 | 100.00 | 5.05 | A+/A1 |
| ILFCNotes | 5.50 | 6/15/2012 | 100.00 | 5.50 | A+/A1 |
| ILFCNotes | 6.50 | 6/15/2015 | 100.00 | 6.50 | A+/A1 |

*Notes are subject to interest rate risk. Investors should be aware that bonds will fluctuate in value and may be worth more or less than original value if sold prior to maturity.*

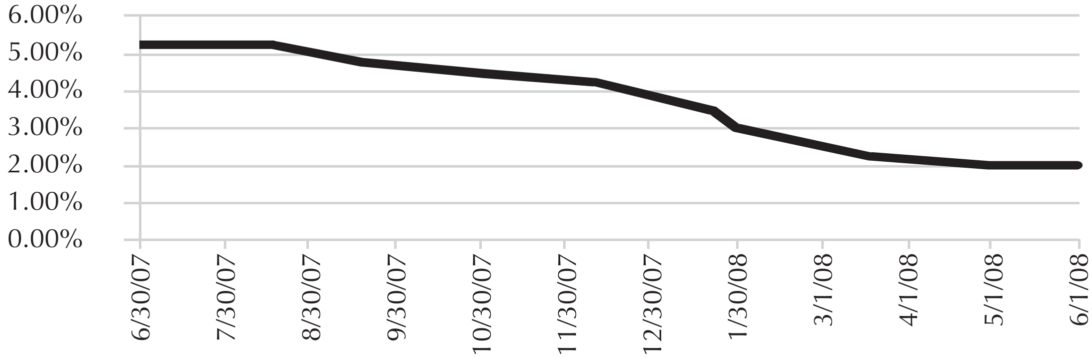
# Federal Reserve

## Will the Fed Now Focus on Raising Rates?

### Federal Funds Rate

Definition: The federal funds rate is the interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight. The rate may vary from depository institution to depository institution and from day to day.

Federal Funds Rate History




*Source Federal Reserve Bank of New York 6/4/2008*

## Federal Open Market Committee

The Federal Open Market Committee consists of twelve members: the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and, for the remaining four memberships, which carry a one-year term, a rotating selection of the presidents of the eleven other Reserve Banks. The FOMC holds eight regular scheduled meetings per year to direct the conduct of open market operations by the Federal Reserve Bank of New York in a manner designed to foster the long-run objectives of price stability and sustainable economic growth. The FOMC also establishes policy relating to System operations in the foreign exchange markets. Meetings: Meetings are usually scheduled for Tuesdays. At the first and fourth meetings of the year, which are scheduled for two-day periods, the FOMC considers its long-run objectives for the money and debt aggregates as well as the current conduct of open market operations. Minutes: The minutes of each meeting are made available three weeks after the meeting.

# Economic Indicators

| Major Economic Indicators | When | Tells |
|---|---|---|
| Non-Farm Payrolls | Monthly–1st Friday | Shows how many jobs were created in the last month |
| Unemployment Rate | Monthly–1st Friday | This indicator is considered a wage inflation barometer |
| ECI–Employment Cost Index | Quarterly | This indicator measures wage increases |
| CPI–Consumer Price Index | Monthly–15th to 21st | Considered the most important measure of U.S. Inflation |
| PPI–Producer Price Index | Monthly–9th to 16th | Measures wholesale inflation. Tracks 3,500 commodities |
| ISM Index | Monthly–1st Bus. Day | Survey of 250 purchasing managers for economic trends |
| GDP–Gross Domestic Product | Quarterly/Monthly Update | Most important broad indicator of economic growth |
| Retail Sales | Monthly–11th to 14th | Measures consumer spending which is two-thirds of GDP |
| Consumer Confidence | Monthly–Last Tuesday | Survey of 5,000 households to gauge consumer spending |
| LEI–Leading Economic Indicators | Monthly | Composite of 12 economic indicators to forecast economy |

# Money In Your Pocket© Tip of the Month

## Bonds and Interest Rates

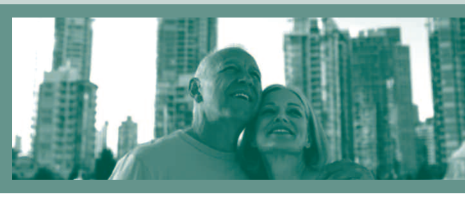
## Interest Rate Risk

Remember the cardinal rule of bonds: When interest rates fall, bond prices rise, and when interest rates rise, bond prices fall. Interest rate risk is the risk that changes in interest rates in the U.S. or the world may reduce (or increase) the market value of a bond you hold. Interest rate risk—also referred to as market risk—increases the longer you hold a bond.

Let's look at the risks inherent in rising interest rates.

If you bought a 10-year, $1,000 bond today at a coupon rate of 4%, and interest rates rise to 5%, two things can happen.

Say you need to sell your 4% bond prior to maturity. In doing so, you must compete with newer bonds carrying higher coupon rates. These higher coupon rate bonds decrease the appetite for older bonds that pay lower interest. This decreased demand depresses the price of older bonds in the secondary market, which would translate into you receiving a lower price for your bond if you need to sell it. In fact, you may have to sell your bond for less than you paid for it. For this reason, interest rate risk is also referred to as market risk.



# Bond Ratings

| | |
|---|---|
| Standard & Poor's Corp | |
| AAA | Highest Quality; principal & interest well protected. |
| AA | High Quality; marginally higher long-term risk than AAA. |
| A | Good Quality; somewhat more suseptible to adverse conditions over the long term. |
| BBB | Adequate; adverse conditions could threaten principal or interest payments. |
| BB | Questionable; faces major uncertainties. Adverse conditions could jeopardize prin/int payments. |
| B | Speculative; adverse conditions would likely impair ability to pay interest or repay principal. |
| CCC | Risky; has been identified as being vulnerable to default. |
| D | In default |
| Moody's Investor's Service, Inc. | |
| Aaa | Highest quality; principal is well protected and interest payments are virtually assured. |
| Aa | High Quality; marginally higher long-term risk than AAA |
| A | Good Quality; many favorable investment aspects. Suggestion credit risk could increase over time. |
| Baa | Medium Grade; neither highly protected nor poorly secured: may be regarded as somewhat speculative. |
| Ba | Lack characteristics of desirable investment; protection of prin/int payments over long term is small. |
| B | Speculative; with only moderate protection of principal and interest payments. |
| Caa | Poor Quality; may be in default and protection of principal is questionable. |
| Ca | Highly speculative; issues may be in default or have other large shortcomings. |
| C | Lowest rated; extremely poor chances of ever attaining investment standing. |

*All offerings are available as of 6/4/2008 and are subject to market conditions and availability. This information is obtained from sources that are believed to be reliable, however, no guarantee of its accuracy can be made. For certain investors, the income from bonds designated Alternative Minimum Tax (AMT) may be subject to the alternative tax. Discount bonds may be subject to capital gains tax. Minimum purchase amounts may apply. Not all municipal bonds are free from both state and federal taxes. If bonds are insured, no representation is made as to the insurer's ability to meet its commitments. Insurance does not remove market risk. CDs carry interest rate and principal risk, and may be subject to transaction costs not associated with bank CDs. Due to fluctuating market conditions, yield/principal value may be higher or lower if CD is sold prior to maturity.*
*All bond ratings are from S&P or Moody's. Hennion & Walsh Bonding© is a condensed profile of various investment opportunities. Due to the brevity of the information, further research may be prudent before making an investment decision.*

# Certificates of Deposit:

| Issuer | Coupon | Maturity | Price | YTM/YTC |
|---|---|---|---|---|
| Washington Mutual Bank | 3.15 | 9/15/2008 | 100.00 | 3.15 |
| GE Money Bank | 3.15 | 12/11/2008 | 100.00 | 3.25 |
| Washington Mutual Bank | 3.20 | 12/12/2008 | 100.00 | 3.20 |
| GE Capital Bank | 3.30 | 3/11/2009 | 100.00 | 3.30 |
| Washington Mutual Bank | 3.45 | 6/12/2009 | 100.00 | 3.45 |
| Western Bank P.R. | 3.85 | 6/11/2010 | 100.00 | 3.85 |
| Capital One Bank | 4.60 | 6/4/2013 | 100.00 | 4.60 |
| Capital One Bank | 4.85 | 6/11/2015 | 100.00 | 4.85 |
| Bank Hapoalim *Callable 10/04/08* | 5.50 | 4/4/2023 | 100.00 | 5.50/5.50 |

*All CDs are FDIC Insured*

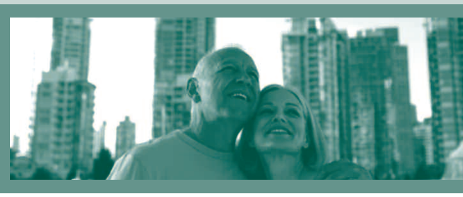
# Preferred Stock of the Week

## Allianz SE

Allianz SE, through subsidiaries, offers insurance, banking, and financial services. The Company offers property and casualty, life and health, credit, mother vehicle and travel insurance, and fund management services. Allianz, through its Banking subsidiary, attracts deposits and offers corporate, investment, and private banking and asset management services.
*Source: www.InfoMax.com*

| | | | |
|---|---|---|---|
| Coupon: | 8.375 | Price: | 25.00 |
| Maturity Date: | Perpetual | Current Yield: | 8.375 |
| Call Date: | Perpetual | S& P Rating: | A3 |
| 15%Tax Treatment* | Yes | Moody's Rating: | A+ |

**Based on current tax law.*
*All offerings as of 6/04/08 and are subject to market conditions and availability.*
*YTM= Yield to Maturity, YTC= Yield to Call*



# Business 101

## 70's Style Inflation?

Remember when…..Time® Magazine's cover story had an illustration of a resolute looking Republican President, with his sleeves rolled up, standing behind the following headline:
Trying to Fight Back
* Inflation
* Recession
* Oil

Guess the date of this issue?
A) May 30, 2008
B) July 15, 1984
C) October 14, 1974

If you guessed "C", you win! Back then, Gerald Ford's campaign to "whip inflation now," was in its last stages, but the rate of inflation did not actually relent until approximately 1983, after Paul Volcker aggressively raised interest rates. However, many of us, particularly those of us with less market experience, might have guessed "A" – because there are some parallels between the problems of the seventies and today. Back then, as we are also witnessing now, oil prices were soaring, food and other commodity prices were skyrocketing and economic growth was slowing. So the question is, "Are we back to the seventies or not?"

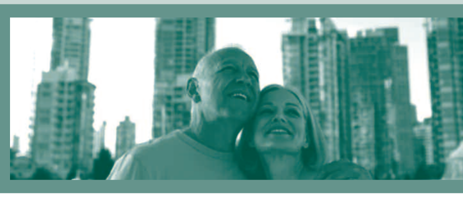
We would suggest that we are not. The global economy and investment marketplace are far different now than they were in the seventies. To understand this viewpoint, let's look at some of the similarities and some of the differences.

In terms of similarities, incremental demand for energy from the rapidly industrializing "BRIC" countries (i.e. Brazil, Russia, India and China) is certainly more than a flash in the pan so the global demand for energy will remain high for the foreseeable future. The primary driver behind higher energy prices is competition for limited resources, as it was in the seventies, is now, and will be in the future.

While supply can be increased beyond the current provable reserves, the lengthy and costly process of discovery to distribution practically insures that, at least for the intermediate term, the imbalances will continue, so prices, even if they may have temporarily peaked, will probably stabilize and then resume their sustained upward trend for some years to come. Hopefully this will not lead to the long waiting lines at the gas stations we experienced in the seventies.

Supply-demand forces also apply to non-energy commodities. We believe that the run up in commodities, now almost 3 years old, has not exhausted itself and is eerily similar to what we saw in the high non-energy commodity prices, albeit perhaps with more of a global emphasis now, in the seventies.

However, there are some significant differences between the seventies and today. One notable difference between then and now is the apparent lack of increased input costs which translate into spiraling wages. Today, companies cannot simply pass on increased costs to the consumer, largely due to a higher degree of global competition. While this heightened level of competition limits the abilities of firms to raise prices, it also allows firms to keep wages under control. This is important seeing that employee costs are still arguably the most critical input to the cost structures of most firms – especially in the most developed countries, like the United States, where the economies are now service driven. All of this has helped fuel productivity gains, which are typically a function of technology and wages. To this point, Federal Reserve Chairman Ben Bernanke commented recently that sharply higher productivity growth has been the key to our economy's strength since the seventies and has generally helped keep inflation in check. So, the inflation that we are experiencing now is different from the inflation we experienced in the seventies but it still remains a concern and a risk to a U.S. economy that is trying to find its legs again. As inflationary pressures intensify, U.S. consumers tend to save more and spend less. Recognizing that consumer spending now accounts for over % of U.S. Real GDP, inflation could have the same drag effects on the economy that many feared a U.S. recession would.



2001 Route 46, Waterview Plaza, Parsippany, NJ 07054
(973) 299-8989 • (800) 836-8240 • Fax (973) 299-0692
www.hennionandwalsh.com