



# Bonding<sup>®</sup>

Volume 9, Issue 1

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HENNION & WALSH

It comes down to trust.

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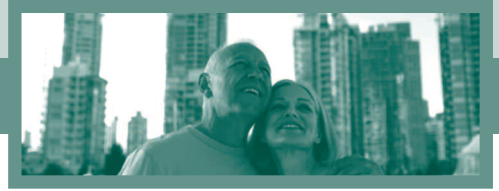
## The Smart Investor

### Types of Municipal Bonds

There are two common types of municipal bonds:

General obligation bonds, also known as GO's, are issued by states, cities or countries. They are backed by the "full faith and credit" of the government entity issuing the bonds. This backing is only as strong as the entity's ability to levy taxes on its citizens, and in some cases charge user or assessment fees. The creditworthiness of GOs is based primarily on the economic vitality of the issuer's tax base. Highly-rated GOs tend to have a strong tax base.

Revenue Bonds are backed solely by fees or other revenue generated or collected by a facility, such as tolls from a bridge or road, or leasing fees. The creditworthiness of revenue bonds tends to rest on a debt service coverage ratio-the relationship between revenue coming in and the cost of paying interest on the debt. Highly-rated revenue bonds usually have a debt service ratio of two or more (the revenue that comes in is twice as much as the cost of paying interest on the debt).



# Municipal Bond Highlight

## New York City General Obligation Bond

5.25% Due 9/15/2033 @ 99 for a 5.32 YTM

### Summary

This AA- rated general obligation bond is for public improvements throughout New York City.

- This municipal bond offering is state and federally tax-free for residents of NY.
- This bond is callable 9/15/13 at par or \$100.00 per bond. The yield-to-maturity (YTM) is 5.32%.
- All information as of 10/1/08 and is subject to price change and availability.

Coupon Rate	5.25	Yield to Maturity:	5.32
Maturity:	9/15/2033	Yield to Call:	5.48
Call Date & Call Price:	9/15/2013 @ 100.00	Current yield:	5.30
Offering Price:	99.00	S&P Rating	Aa3
Quantity:	N/A	Moody Rating	AA

*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.*

## 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 Trusts

# 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.

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

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## National Municipal Bonds

Issuer	Coupon	Maturity	Price	*YTM/YTC	Rating S&P Moody's
NYC Mun Wtr Fin Auth	5.00	6/15/2029	97.50	5.19	AA+/Aa3
New York St Dom Auth	5.00	2/15/2023	95.50	5.35	AA-/
Erie Cnty NY	5.25	4/1/2015	105.00	4.35/ 4.22	/A2
<i>*MBIA Insured Callable 4/1/2014 @ 100</i>					
New Jersey St Edl Facs Auth	5.375	7/1/2038	100.00	5.375	AAA/
<i>*FSA Insured</i>					
New Jersey Hlth Care Fac Fing Auth	5.00	10/1/2028	100.00	5.00	AA-/A1
New Jersey Sports & Exposition Auth	4.00	9/1/2019	95.00	4.58	AA-/A2
New Jersey St Trans	5.50	12/15/2015	111.875	3.61	AAA/Aaa
<i>*FSA Insured Non Callable</i>					
Puerto Rico Convention Ctr	5.00	7/1/2019	100.00	5.00	AA/Aa3
<i>*AMBAC Insured</i>					
Puerto Rico Elec Pwr Auth	5.00	7/1/2037	89.625	5.74	BBB+/A3
Puerto Rico Comwlth	6.00	7/1/2044	99.25	6.05	BBB-/Baa3
Chabot-Las Positas Calif Cmnty College	5.00	8/1/2029	97.50	5.19	AA/Aa2
<i>*AMBAC Insured</i>					
Pennsylvania St Tpk Comm	5.25	6/1/2036	95.50	5.57	A-/A2
St. Lucie Cnty Fla Sch Brd	5.00	7/1/2029	95.50	5.40	AAA/Aaa
<i>*FSA Insured</i>					

*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 of 10/1/2008.*

*\*\* Alternative minimum tax*

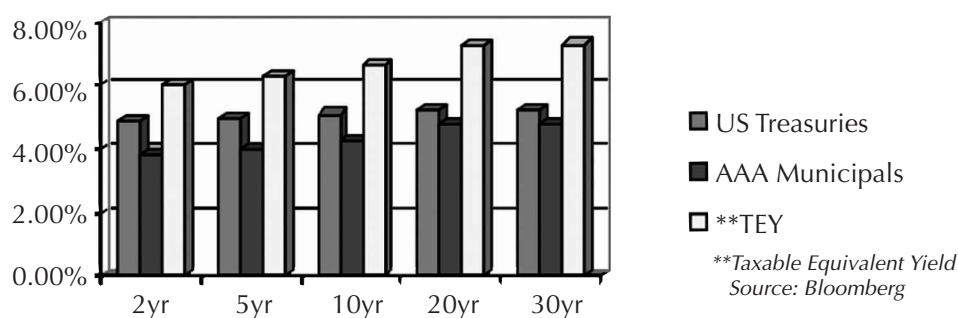
*Bonds are subject to interest rate risk. Investors should be aware that bonds will fluctuate in value and may be worth more or less than original value if sold prior to maturity.*

*\*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					



## 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

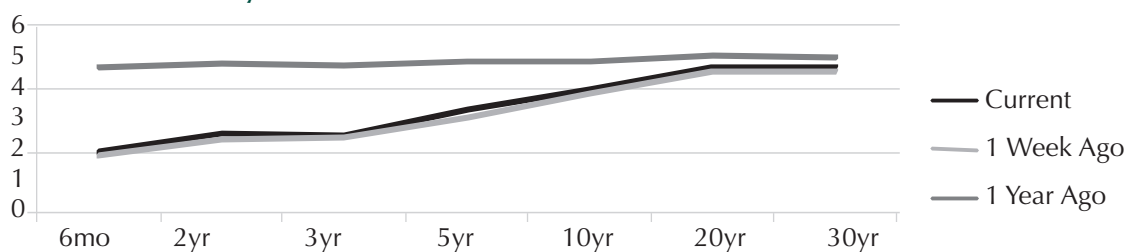
\*State tax free

Issuer	Coupon	Maturity	Price	*YTM/YTC	Rating S&P Moody's
Federal Home Loan Mtg Corp <i>Callable 10/6/2008</i>	5.00	4/15/2016	100.00	5.00/ 5.00	Aaa/AAA
Federal Home Loan Mtg Corp <i>Callable 10/6/2008</i>	5.40	11/15/2017	100.00	5.40/ 5.40	Aaa/AAA
Federal Home Loan Bank* <i>Callable 10/6/2008</i>	5.60	1/3/2020	100.00	5.60/ 5.60	Aaa/AAA
Tennessee Valley Authority* <i>Callable 11/5/2008</i>	5.50	11/15/2020	100.00	5.50/ 5.50	Aaa/AAA

Issuer	Coupon	Maturity	Price	*YTM/YTC	Rating
Federal Home Loan Bank <i>callable 11/28/2008</i>	5.67	2/28/2023	100.00	5.67/5.67	Aaa/AAA
Fannie Notes <i>callable 12/21/2008</i>	6.00	3/21/2028	100.00	6.00/6.00	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 10/1/2008 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	1.65	1.89	2.20	2.88	3.74	4.35	4.22
1 Week Ago	1.86	1.99	2.38	2.99	3.80	4.45	4.38
1 Year Ago	3.71	4.00	4.04	4.60	4.85	4.85	4.78

For illustration purposes only. Past performance is no indication of future results. Source U.S. Department of the Treasury 10/1/2008

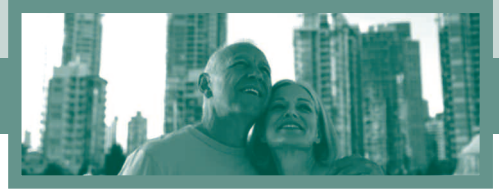
## U.S. Treasuries

Issuer	Coupon	Maturity	Price	YTM/YTC
U.S. Treasury—N/C	2.00	9/30/2010	100.25	1.88
U.S. Treasury—N/C	3.125	9/15/2013	101.125	2.87
U.S. Treasury—N/C	4.00	8/15/2018	102.25	3.73
U.S. Treasury—N/C	4.50	5/15/2038	104.625	4.22

## U.S. Treasury Zero Coupon

Issuer	Maturity	Price	Yield
U.S. Treasury Strip—N/C	8/15/2009	98.47	1.78
U.S. Treasury Strip—N/C	8/15/2014	83.25	3.14
U.S. Treasury Strip—N/C	5/15/2019	62.50	4.37
U.S. Treasury Strip—N/C	8/15/2024	49.25	4.50

All offerings as of 10/1/2008 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.

**FreddieNotes®** *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 10/1/2008*

Issuer	Coupon	Maturity	Price	YTM/YTC	Rating S&P Moody's
FHLMC FreddieNotes	4.500	7/15/2013	100.00	4.500	AAA/Aaa
FHLMC FreddieNotes	5.000	7/15/2016	100.00	5.000	AAA/Aaa
FHLMC FreddieNotes	5.500	7/15/2021	100.00	5.500	AAA/Aaa
FHLMC FreddieNotes	6.000	7/15/2038	100.00	6.000	AAA/Aaa

*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.*

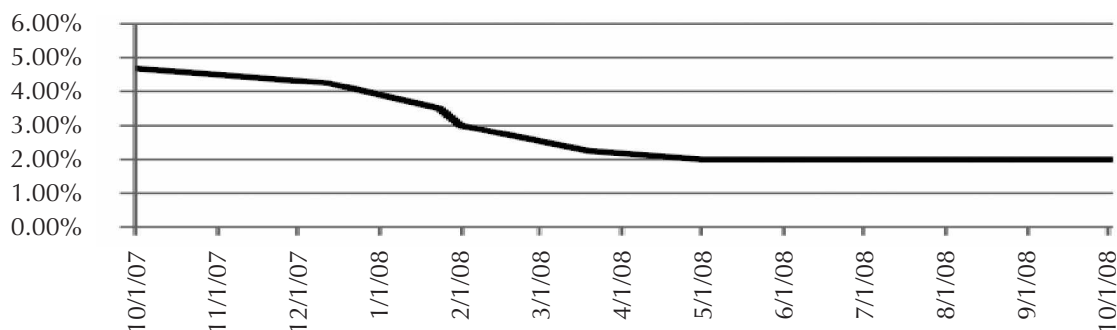
## Federal Reserve

### Will the Fed Now Begin to 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 10/1/2008



## 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 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. The minutes of each meeting are made available three weeks after the meeting.

## Money In Your Pocket<sup>®</sup>

### Tip of the Month

#### Bonds and Interest Rates

##### Interest Rate Risk

Remember the cardinal rule of bonds: When interest rates fall, bond prices generally rise, and when interest rates rise, bond prices generally 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.





## 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

## Certificates of Deposit

Issuer	Coupon	Maturity	Price	YTM/YTC
Goldman Sachs Bank	2.40	01/08/2009	100.00	2.00
Western Bank P.R.	3.00	04/08/2009	100.00	3.01
Goldman Sachs Bank	3.55	10/08/2009	100.00	3.55
Western Bank P.R.	4.25	04/08/2010	100.00	4.25
Western Bank P.R.	4.30	10/08/2010	100.00	4.30
Goldman Sachs Bank	4.50	10/11/2011	100.00	4.50
Goldman Sachs Bank	5.00	10/08/2013	100.00	5.00
Goldman Sachs	5.25	10/09/2018	100.00	5.25

All CDs are FDIC Insured

YTM= Yield to Maturity, YTC= Yield to Call

# CD of the Week

## Doral Bank, Cantano Puerto Rico

Coupon:	6.25	Price:	100.00
Maturity Date:	10/17/2028	Current Yield:	6.25
Call Date:	04/17/2009	Monthly Pay	

*FDIC Insured*

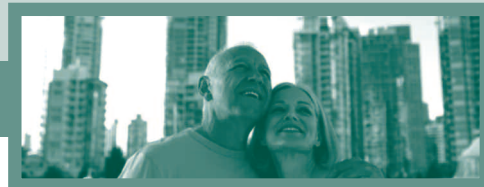
*All offerings as of 10/1/2008 and are subject to market conditions and availability.*

## 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 susceptible 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 10/1/2008 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.*



# Business 101

## Applying a Historical Perspective

We keep hearing through the various media outlets that these are historic times on Wall Street. We even heard one reporter suggest that if the Economic Rescue Package were not to pass that we could be at the beginning stages of the next Great Depression. We certainly would not argue that these are not historic times on Wall Street and agree that our government and economy are now trying to navigate through uncharted waters. However, we are far from the conditions that persisted during the Great Depression. Let's look at some of the stark differences\* between these two time periods:

Great Depression Time Period	2008
Dow Jones Industrial Average ("DJIA") declined approximately 40% in two months	DJIA has fallen approximately 22% in 12 months
Unemployment rate was approximately 25%	Unemployment rate is approximately 6.1%
Gross Domestic Product ("GDP") declined by 25% during the early 1930s	GDP has increased by 3% over the past year
Home Prices declined by approximately 30%	Home Prices have declined by approximately 16%
Approximately 40% of all mortgages were delinquent by 1934	Approximately 4% of mortgages are delinquent
More than 9,000 banks failed in the 1930s	Less than 20 banks have failed in the last two years

\*Data source: "Don't Call it a Bailout. Or a Depression" Irwin Kellner, MarketWatch, September 2008

These comparisons are not provided to dismiss existing concerns and volatility in the markets but rather to put them in a historical perspective. In times like these, it is helpful to not only draw lessons from history but also to revisit, or in some cases visit for the first time, your asset allocation strategy to help ensure that you have the diversification in place to not only provide downside protection but also to help participate in a market recovery. Finding the combination of different asset classes such as Equities, Bonds, Commodities, Cash, etc... that is appropriate for each investor's financial objectives, investment timeframe and risk tolerance is not an easy task and should not be taken lightly. Individual investors should consult with an experienced advisor who applies a historical and forward looking investment perspective to each portfolio that they help to manage.

Asset allocation decisions are critical to the long-term success of an investment portfolio. The landmark "Determinants of Portfolio Performance" study conducted in 1991 by Brinson, Singer and Beebower, as published in the Financial Analysts Journal, identified asset allocation as being responsible for more than 91% of portfolio performance – many times greater than the selection and timing of individual security transactions.

While past performance cannot guarantee future results, applying a historical perspective and maintaining an appropriate strategic asset allocation can help provide comfort to investors during periods of great volatility.

