Stamper Capital & Investments, Inc.

"Focusing on Upside Potential with Downside Protection Since 1995."

The Value of Escrowed and Prerefunded Municipal Bonds

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With all the worry in today's news headlines about the safety of investing in municipal bonds, investors may wonder about the wisdom of putting their hard earned savings into Muni bonds. What folks need to know is that not all municipal bonds are the same. In fact, they are as diverse a category as any other investment vehicle, with both very high risk and very low risk options to choose from. In this article we will discuss some of the lowest risk municipal bond investments out there – prerefunded and escrowed to maturity municipal bonds. Although SCI bills itself as an expert high-yield manager, it also is very aware of current market conditions, and is willing and able to strategize and plan for the worst when it comes to protecting client assets.

Many people ask - what are escrowed and prerefunded bonds? When a municipality (State, County, City, etc…) wants to refinance their bond debt, new bonds are issued to pay off older bonds, and the money raised by selling new bonds is put into an escrowed account and invested by a trustee in US Treasuries, State and Local Government Securities (aka 'SLUGS'), or some other government related security (Note: Not all escrowed bonds are in US Treasuries, some might be in Freddy Mac or Fannie Mae, for example, and are a far different risk than US Government backed securities). Then over the years until maturity, these securities are used to make interest and principal payments on the old refunded bonds. Bonds that have actual assets like US Treasuries backing them are safer than investments with just revenue streams, mortgages, or nothing backing them, and are therefore easier to sell later on, if needed.

The reason these escrowed and prerefunded bonds are safer is because securities in escrowed accounts are pretty much untouchable, and are safe from bankruptcy/creditors. If you own the old bonds that were refunded and backed by the escrow accounts, you are basically guaranteed your investment return, backed by the full faith and credit of the US Government.

Prerefunded bonds are a lot like escrowed bonds, except instead of the old bonds continuing all the way to their original maturity date, prerefunded bonds, much like their name, get paid off years earlier than maturity. Sometimes they are also paid off at a premium to keep investors from losing out on too much investment performance due to the reduced number of years of interest payments. Prerefunded bonds are just as safe as escrowed bonds, and the shorter final date is good for our current market conditions, where interest rates are at historic lows and can only go up from here.

Our portfolio manager places clients' cash into the safest possible muni bonds while the market is at its most uncertain – so that when things turn around, these clients will have maintained capital while everyone else has lost their shirts taking unnecessary risks in a market teetering on the edge of calamity. These clients will then be able to scoop up higher yielding bonds at great prices. Our portfolio manager does this by taking refuge in the safe haven of prerefunded and escrowed bonds until the storm has passed.

Stamper Capital & Investments has been positioning our clients over the past several years in preparation of what we are forecasting. If we are right, the past three years will seem like a walk in the park compared to what is coming. We intend our clients to not only just 'survive' what is to come, but to be in a position to make once-in-a-lifetime investment purchases at fire-sale prices. If you are interested in discussing our forecast further or would like to inquire about privately managed municipal bond accounts, please contact Stamper Capital & Investments at (949) 673-5787 or email us at **separatelymanagedaccounts@risk-adjusted.com.**

Stamper Capital & Investments, Inc. provides portfolio management services exclusively for institutional and high net worth accounts and does not sell the mutual funds for which it is or was a sub-Advisor. Also, please note: purchasers of mutual funds must receive a copy of a particular mutual fund's prospectus before a purchase is made.

Past performance does not guarantee future results, and current performance may be higher or lower than the performance data quoted. Investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost.

Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's websites for more information.
