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THE NEW YORK TIMES ***Tax-Free Bond Funds Up in Quarter***

By Kurt Eichenwald | 07-06-1991

The strength in the high-risk "junk bond" market in the last quarter spread into tax-free funds, with the high-yield municipal bond funds outperforming the general municipal bond funds for the three months ended June 30.

New figures released yesterday by the Lipper Analytical Services Corporation show that the quarter was positive for all categories of municipal bond funds.

The average total return for general municipal bond funds was 2.02 percent for the quarter, compared with a return of 2.42 percent for the higher-risk, high-yield category. Less Risk, Lower Return

Across the board, municipal bond investors who assumed less risk for the quarter saw a lower return. Funds that invest in short-term -- and therefore safer -- municipal paper saw total returns of 1.48 percent. Intermediate bond funds, which invest in bonds with maturities from 5 to 10 years, saw returns of 1.66 percent. Investors in insured municipal bond funds had returns of 1.85 percent.

Better performance, however, should not be viewed as a signal by investors that now is the time to plunge into high-yield municipal bond funds, said A. Michael Lipper, the president of the mutual-fund research firm.

"All performance tends to be cyclical," he said. "Something that is doing well now probably won't do well in the future."

There was some bad news in the numbers for many investors. According to Lipper, the value of investments in tax-free municipal bonds is not keeping pace with inflation. The Consumer Price Index for the 12 months ended in March rose 4.9 percent, he said, while the principal value of most municipal bond funds gained about 2 percent in the year ended June 30.

"People who are living off of the income from tax-exempt funds and spending all of it," Mr. Lipper said, "are actually eating into their capital, because bond prices are not keeping up with inflation." The Top Performer

The best-performing municipal bond fund for the quarter was the Venture Municipal Plus fund, a high-yield fund.

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Clark Stamper, the portfolio manager for the fund, said that Venture's performance came largely as a result of a decision made in the fourth quarter to unload a number of bonds, including some that are guaranteed by real estate in the Northeast and that collapsed in value since the beginning of the year.

Also, the fund earned profits from buying industrial-revenue bonds sold by municipalities on behalf of the Supermarkets General Corporation.

"There was an irrational seller," Mr. Stamper said. The fund bought the bonds in the range of 70 cents for each dollar of face value, and the bonds subsequently rose to the high 90's.

Health Care and Housing

Another fund that turned in a strong performance was Flagship Financial's Flagship Tax Exempt All American fund, a diversified fund. Michael Kalbfleisch, treasurer of the fund, said that its two largest holdings are in health-care bonds and housing bonds.

The three worst performances for the quarter were turned in by separate funds of First Investors Multi-State Insured Tax Free funds in Connecticut, Maryland and Massachusetts.

Michael Miller, a senior executive with the First Investors Corporation, said that the performance could have resulted from the company's changing the firm it uses to price the funds. The new firm may have been less optimistic than the former one, he said.

The net asset values of municipal bond funds generally declined slightly in June, according to Lipper, with general funds losing 0.84 percent. Intermediate-maturity funds declined 0.58 percent and short-term funds lost 0.29 percent.

The losses were seen in almost every state. Connecticut was the worst performer in June, with a drop of 81 basis points. A basis point is one-hundredth of a percentage point. The only state whose municipal bond funds gained in June was Massachusetts, which rose a basis point.

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