



LOOP CAPITAL MARKETS

**Municipal Finance at the Crossroads:
Will 2010 Bring Continued Disruption or
New Opportunities for Investors**

**Chris Mier
Managing Director, Strategist
Loop Capital Markets, LLC
February 1, 2010**

Additional Loop Disclaimer

Loop Capital Markets

- Does not transact, advise, or otherwise do business with individuals.
- Does not guaranty the accuracy or the appropriateness of this presentation.
- This presentation should be treated as entertainment.



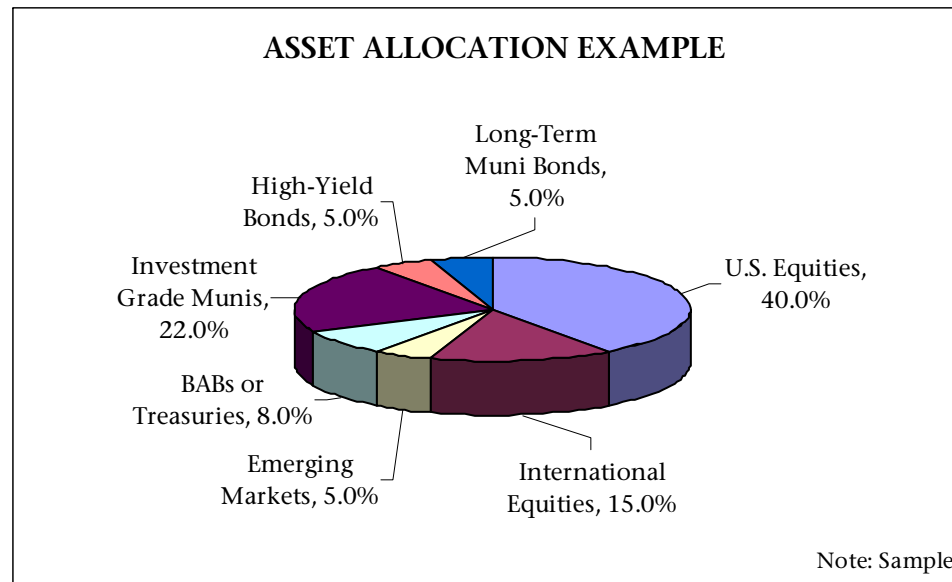
Q: Does a Long-Term Municipal Bond Strategy Make Sense for the Individual Investor?

A: Sometimes



Thesis: Professional Advisors to Sophisticated Individuals Should Consider a Small Asset Allocation in Long-term Municipal Bonds

- “Long-term” (arbitrarily) refers to 15 years and up
- Like the approximate commitment to international equities, TIPs, commodities, etc., in a well diversified portfolio



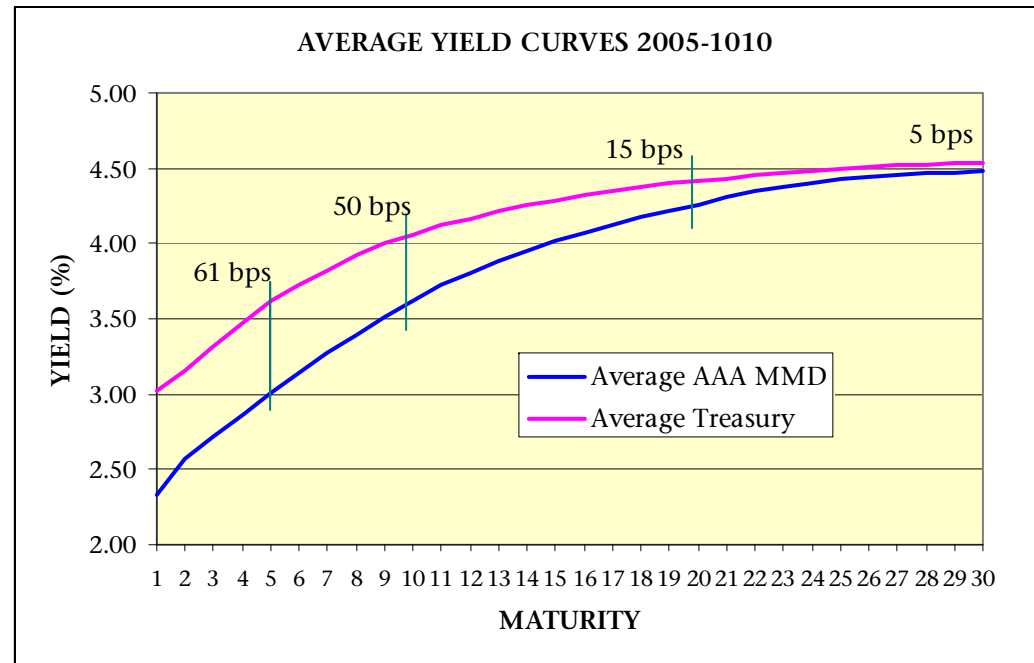
For “Retail”, Callable bonds are an Existential Proposition

- Rates go up → your current market value falls → bad ☹️
- Rates go down → your bonds are called and you have to reinvest at low yields → bad ☹️
- Heads you lose, tails you lose.



- This bond “ennui” has confined investors to the short end of the municipal yield curve (1-7 years)
- But, what is the opportunity cost of staying short on the muni curve?

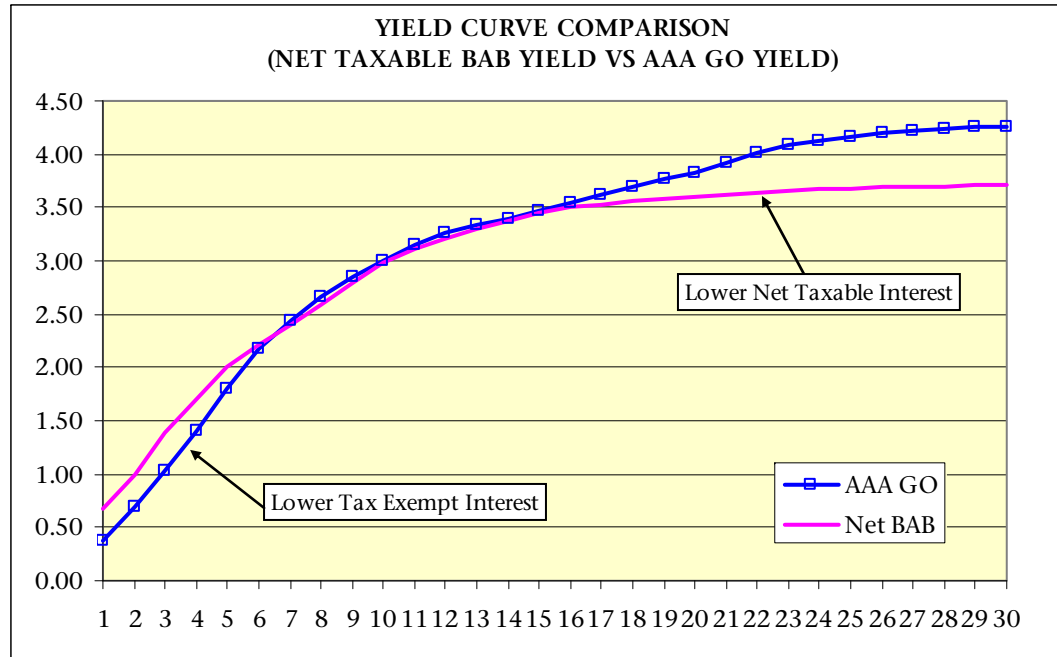
The Steepness of the Muni Curve: the Eighth Wonder of the Modern World



- The opportunity cost is very high, an average of 154 basis points from the 5-year to the 30-year.
- This phenomenon begs to be taken advantage of (prudently)!



Archetypal Strategy—Buy Short Taxables and Longer Munis!

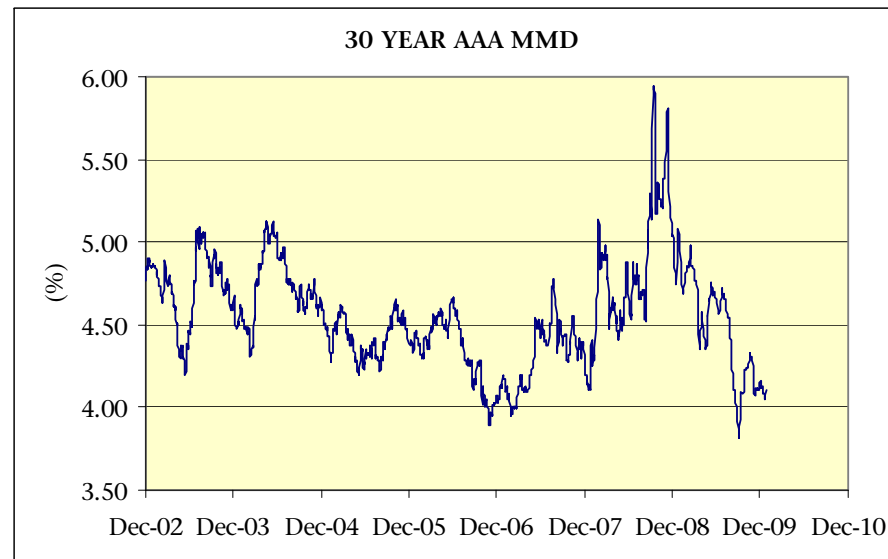


- Tax exempts are compared to BABs since they have the same credit quality.



This is Risky! How Can I Take a 20 or a 30-year Risk on a Muni Bond?

- 20 to 30-year callable munis historically have seldom stayed outstanding to maturity due to:
 1. Advance and Current Refunding
 2. Sinking fund payments
- For example, about 15% of callable 30-year bonds issued in 2003 have been refunded so far.



What is “the Maturity Bet”?

- Your callable muni bond will be retired before maturity if:

1. There is one sustained decline in interest rates and the bond is advance refundable;

OR

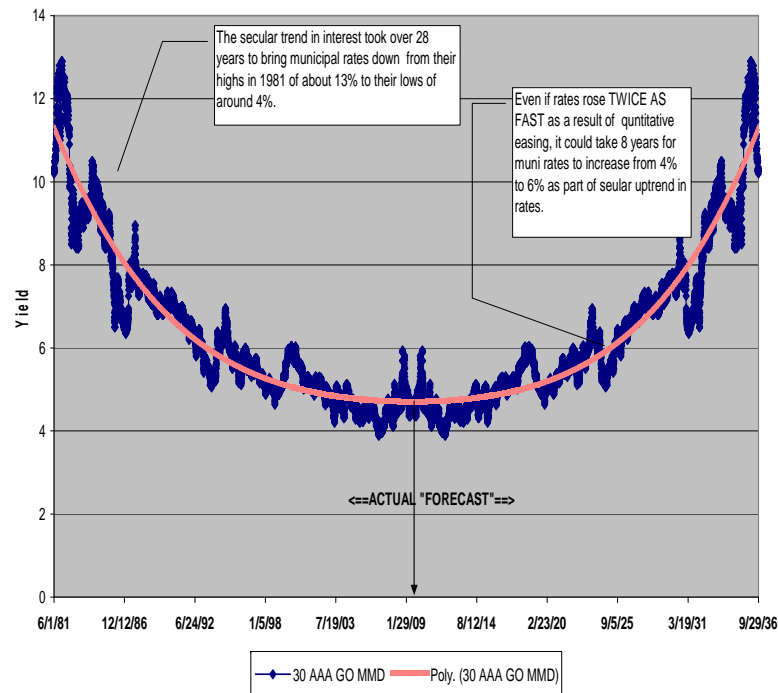
2. There is one sustained decline in interest rates after the call date for bonds that cannot be advance refunded



What are the Odds My Bond Won't be Called Early?

- Generally, you would have to be at a secular low in interest rates and
- Volatility insufficient to drive interest rates lower for a sustained period of time
- If we are at a secular low in rates, could this happen?
 - Not only yes, but ____ yes!

INTEREST RATE REFLECTION CHART



What Are the Implications for Retirement Planning?



- **Balancing risk of insufficient cash flow with duration risk**

With Bonds Time is {Usually} Your Friend

- Roll-down increases market value over time (until close to maturity).
- Roll-down reduces interest rate risk.
- Muni interest rates peaked in 1981 and declined along an irregular path for over 25 years!
- But, interest rates may rise faster than they decline.



Thanks to Build America Bonds, You Can Now Use Munis for Your Taxable Holdings!



CAVEAT EMPTOR! “Don’t Try This at Home!”

- These strategies can be useful, but keep in mind:
 1. No one can predict the future
 2. As in life, financial markets carry unforeseeable risks

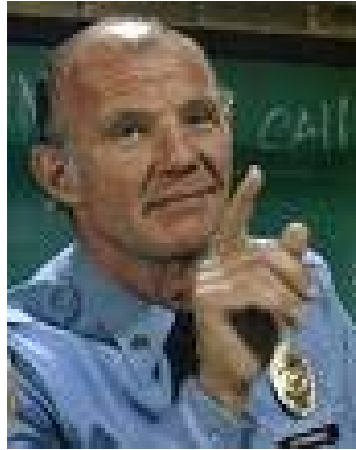


Retail Muni Investors Need Professional Support

- **Mutual Funds**
- **Investment Management Services**
- **Financial Planner**
- **Trust Services**
- **Financial Consultant**



Thanks. Practice Safe Portfolio Management



“Be careful out there!”

Questions?

Chris Mier, CFA	chrism@loopcap.com	312.356.5840
Ivan Gulich, CFA	ivang@loopcap.com	312.913.2204
Greg Bridwell	gregoryb@loopcap.com	312.913.2268
Ann Kibler	annk@loopcap.com	312.913.2209



Loop Capital Markets' Disclaimer

This document has been prepared by Loop Capital Markets, LLC ("Loop Capital"), an investment banking firm, for information purposes only. Loop Capital has or may have provided investment banking services to issuers referenced in this document. This document is an indicative summary of the terms and conditions of the securities/transaction described herein and may be amended, superseded or replaced by subsequent summaries. The final terms and conditions of the securities/transaction will be set out in full in the applicable offering document(s) or binding transaction document(s).

This document shall not constitute an underwriting commitment, an offer of financing, an offer to sell, or the solicitation of an offer to buy any securities described herein, which shall be subject to Loop Capital's internal approvals. No transaction or services related thereto is contemplated without Loop Capital's subsequent formal agreement. Loop Capital is not acting as an advisor or fiduciary. Accordingly, you must independently determine, with your own advisors, the appropriateness for you of the securities/ transaction before investing or transacting. Loop Capital accepts no liability whatsoever for any consequential losses arising from the use of this document or reliance on the information contained herein. Loop Capital does not guarantee the accuracy or completeness of information which is contained in this document and which is stated to have been obtained from or is based upon trade and statistical services or other third party sources. Any data on past performance, modeling or back-testing contained herein is no indication as to future performance. No representation is made as to the reasonableness of the assumptions made within or the accuracy or completeness of any modeling or back-testing. All opinions and estimates are given as of the date hereof and are subject to change. The value of any investment may fluctuate as a result of market changes. The information in this document is not intended to predict actual results and no assurances are given with respect thereto.

Loop Capital, its affiliates and the individuals associated herewith may (in various capacities) have positions or deal in transactions or securities (or related derivatives) identical or similar to those described herein. IRS Circular 230 Disclosure: Loop Capital and its affiliates do not provide tax advice. Please note that (i) any discussion of US tax matters contained in this communication (including any attachments) cannot be used by you for the purpose of avoiding tax penalties; (ii) this communication was written to support the promotion or marketing of the matters addressed herein; and (iii) you should seek advice based on your particular circumstances from an independent tax advisor.

LOOP CAPITAL MARKETS, LLC. ACCEPTS RESPONSIBILITY FOR THE DISTRIBUTION OF THIS DOCUMENT IN THE UNITED STATES. ANY TRANSACTIONS BY US PERSONS IN ANY SECURITY DISCUSSED HEREIN MUST ONLY BE CARRIED OUT THROUGH LOOP CAPITAL MARKETS, LLC. 200 WEST JACKSON BOULEVARD, CHICAGO, ILLINOIS 60606. NO ACTION HAS BEEN MADE OR WILL BE TAKEN THAT WOULD PERMIT A PUBLIC OFFERING OF THE SECURITIES DESCRIBED HEREIN IN ANY JURISDICTION IN WHICH ACTION FOR THAT PURPOSE IS REQUIRED. NO OFFERS, SALES, REALES OR DELIVERY OF THE SECURITIES DESCRIBED HEREIN OR DISTRIBUTION OF ANY OFFERING MATERIAL RELATING TO SUCH SECURITIES MAY BE MADE IN OR FROM ANY JURISDICTION EXCEPT IN CIRCUMSTANCES WHICH WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS AND WHICH WILL NOT IMPOSE ANY OBLIGATION ON LOOP CAPITAL OR ANY OF ITS AFFILIATES. THIS DOCUMENT DOES NOT DISCLOSE ALL THE RISKS AND OTHER SIGNIFICANT ISSUES RELATED TO AN INVESTMENT IN THE SECURITIES/TRANSACTION. PRIOR TO TRANSACTING, POTENTIAL INVESTORS SHOULD ENSURE THAT THEY FULLY UNDERSTAND THE TERMS OF THE SECURITIES/TRANSACTION AND ANY APPLICABLE RISKS.

Loop Capital Markets, LLC is registered with the SEC, FINRA and the MSRB in the United States. Loop Capital Holdings, LLC, a Delaware limited liability company is the majority interest holder in Loop Capital Markets, LLC, Loop Financial Futures, LLC, and Loop Capital Advisors, LLC. Loop Financial Products, LLC is wholly owned by Loop Capital Holdings, LLC.

This document is confidential, and no part of it may be reproduced, distributed or transmitted without the prior written permission of Loop Capital.

