



# The Long-Term Fundamentals and Current Investment Prospects of **MUNICIPAL BONDS**

## Why Municipal Bonds?

- Potential federally tax-exempt income
- Currently offer potential yield advantage due to the wider credit spreads between municipals and Treasuries
- With potential for lower default risk, may help reduce volatility of an overall portfolio

**Municipal bonds are generally exempt from federal income taxes. As a result, taxable investments need to earn higher yields to equal the tax-free rates offered by municipal bonds.**

## The Fundamentals of Municipal Bonds

Investors typically turn to municipal bonds (municipals) as a potential source of federally tax-exempt income.\* However, with backing by either the issuer's full faith and credit for general obligation bonds or the potential revenue stream from a specific project for revenue bonds, municipal bonds are commonly thought of as being second only to U.S. Treasuries (Treasuries) in terms of lower default risk. In addition, current market conditions may create attractive yield and total return opportunities for municipal investors.

## Potential Tax Advantages

Municipal bond interest is generally exempt from federal income tax, and may even be exempt from state and local taxes if you reside in the same state as the issuer. This exemption may give municipal bonds an advantage over taxable bonds which have to earn a higher rate of return to generate the same level of after-tax income. Plus, as shown in the chart below, that potential advantage may increase with the investor's tax bracket. With the prospect of the top two income tax brackets expected to increase in 2011, the potential tax advantages of municipals may be even more attractive for many investors.

### TAX-FREE VS. TAX EQUIVALENT YIELD

THE POTENTIAL IMPACT OF TAXES ON YOUR RETURN

	Federally Tax-Free Yield			
	5.00%	5.25%	5.50%	6.00%
Federal Tax Rate	Taxable Equivalent Yield			
25%	6.67%	7.00%	7.33%	8.00%
28%	6.94%	7.29%	7.64%	8.33%
33%	7.46%	7.84%	8.21%	8.96%
35%	7.69%	8.08%	8.46%	9.23%

Source: Claymore Securities, Inc.

## DO MUNICIPAL BONDS MAKE SENSE FOR YOU?

Your advisor can help you determine if municipal bond investments, either direct or through other investment vehicles such as a unit investment trust (UIT), have a place in your portfolio. By investing in a UIT, you can gain exposure to a basket of municipal bonds versus owning individual bonds, which may help reduce the brokerage cost typically incurred when purchasing multiple bonds directly. Please keep in mind that by gaining exposure to municipal bonds through a UIT, you will not actually own the individual municipal bonds, but a unit in a trust. In addition to the risk associated with a UIT, you are also subject to the risk of municipal bonds. Municipal bonds are long-term fixed rate debt obligations that decline in value with increases in interest rates, an issuer's worsening financial condition, a drop in bond ratings or when there is a decrease in the federal income tax rate. Typically, bonds with longer periods before maturity are more sensitive to interest rate changes. Municipal bonds generally generate income exempt from federal income taxation, but may be subject to state, local and the alternative minimum tax. An issuer or an insurer of the bonds may be unwilling or unable to make principal payments and/or to declare distributions in the future, may call a security before its stated maturity, or may reduce the level of distributions declared. This may result in a reduction in the value of your units. Please make sure to read the individual investment product's prospectus for more information regarding the risks of municipal bonds as well as the investment vehicle.

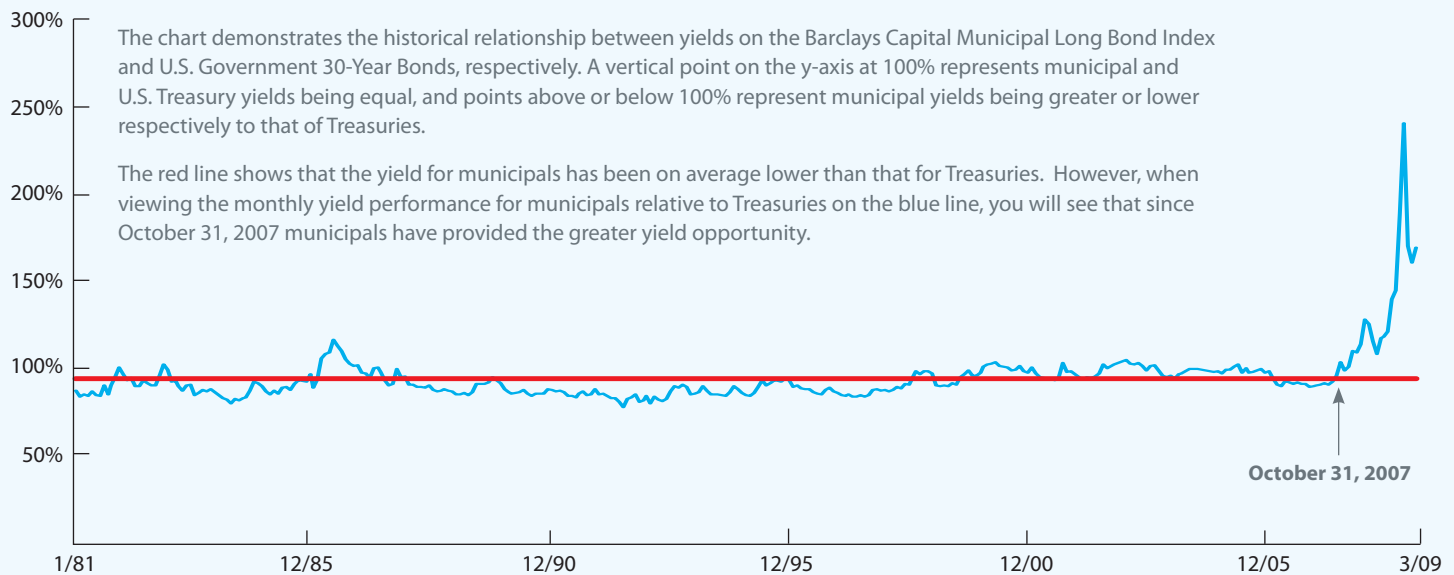
\* Income may be subject to state and local taxes as well as the alternative minimum tax. Capital gains, if any, may also be subject to tax. If bonds are purchased at a discount, there will be a larger portion of taxable ordinary income. The information contained herein is for educational and illustrative purposes and should not be regarded as tax advice. The tax consequences of distributions may vary by individual investor. Investors should consult their tax professional or financial advisor for more information with regard to their specific situation.

## Potential Investment Opportunities Presented by Widening Credit Spreads

Municipals faced a number of challenges during 2008 including the market's preference for Treasury securities in the overall flight to quality. These challenges helped create historically wide spreads between municipal bond and Treasury yields, with municipals potentially offering a significant yield advantage over Treasuries.

In addition to the compelling yield potential currently present among many municipal bonds, potential for price appreciation following a market recovery could also provide investors with a source of total return. In the interim, municipal investors may be "paid to wait" and earn federally tax-exempt income through interest payments, if any.

### MUNICIPAL BOND YIELD AS A PERCENT OF U.S. TREASURY YIELD 1/31/81-3/31/09



Source: Bloomberg

Source: Bloomberg, April 2009. **Past performance is not a guarantee of future results.** The chart above is for illustrative purposes only; it is not meant to forecast, imply or guarantee the future performance of any Claymore product. An index is unmanaged and it is not possible to invest directly in an index or in its underlying sectors. Index definitions: Barclays Capital Municipal Long Bond Index (22+) Yield to Worst index is the yield to worst of the Long Bond (22+) component of the Municipal Bond index. The Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market.

## FOR MORE INFORMATION

ON CLAYMORE AND INVESTMENT SOLUTIONS THAT PROVIDE EXPOSURE TO OPPORTUNITIES IN MUNICIPAL BONDS, PLEASE CONTACT YOUR FINANCIAL ADVISOR OR VISIT [WWW.CLAYMORE.COM](http://WWW.CLAYMORE.COM).

UITs are fixed and not actively managed. You can lose some or all of your money by investing in a trust. An investment in a fixed portfolio should be made with an understanding of the risks involved with owning various types of investments. Industry predictions may not materialize and securities selected for a trust may not participate in overall industry growth, if any. There is no guarantee that the portfolio will achieve its investment objective. The economic condition of the issuers of the securities in the portfolio as well as the stock market, in general, may worsen and therefore reduce the value of the units of the portfolio. Units, when redeemed, may be worth more or less than their original purchase price.

UITs are a part of long-term strategies. Consult an attorney or tax advisor regarding tax consequences associated with units held outside one of these tax-deferred vehicles. Claymore Securities, Inc. does not offer tax advice.

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4/09 1650

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