

The case for municipal bonds

Over the past few months, long-term tax-free bond yields have declined only a fraction as much as long-term Treasury bond yields, making the two yields nearly equivalent, something that has not happened in the municipal market in over 10 years.

Although the federal budget surplus has resulted in a decline in the supply of Treasury notes and bonds, new issue volume is continuing at a record pace. With the historic peak of \$293 billion having been reached in 1993, 1998 is expected to reach or exceed that level. To absorb this heavy volume, market yields on municipals have had to remain relatively high.

If you have ever considered adding tax-exempt municipal bonds to your portfolio, or have not made a purchase for several years, now may be the opportune time to buy. But you'll need to act soon as an anticipated "softer" economic environment could ease the supply.

When compared to taxable fixed-income alternatives, tax-free municipal bonds offer attractive yields. As an example, take a look at the taxable equivalent yield for bonds maturing in 2008: the triple-A-rated municipal bond yields 4.03%, and the high-grade corporate and government bonds yields 5.02% and 4.40%, respectively (based on rates as of 10/8/98). At first glance, they don't appear attractive. But, remember, corporate and government bonds are taxable. For an investor in the 36% federal tax bracket, the taxable equivalent yield is 6.25%. This example does not take state or local taxes into consideration. However, since most municipal bonds are also exempt from state taxes, investors in high-tax states and large cities would experience an even higher taxable equivalent yield, making tax-free municipal bonds an even better value.

Could municipal bonds make sense for you?

First, take a look at the chart featuring 1998 federal income tax brackets below.

Federal Income Taxpayers	Married Filing Joint Return
15%	0-\$ 43,050
28%	\$0-\$ 25,750
31%	\$25,750 - \$62,450
36%	\$62,450 - \$130,250
39.6%	\$130,250 - \$283,150
	\$283,150+

Next, know your after-tax return — the amount you get to keep from your investments. The example here shows an after-tax return of 4.48% on a taxable yield of 7%.

7.0 Taxable Investment

4.48 After-Tax Return

Finally, when making a buying decision, compare taxable yields to tax-free yields that are available. In the above example, a tax-free investment earning more than 4.48% could make more sense for a person in a 36% bracket than a taxable investment earning 7%.

Determining the right municipal bond mix for your portfolio depends on your age, retirement time horizons and risk tolerance. Bonds can provide an important complement to equities, for investors who are seeking to maximize the total return on their portfolios relative to risk. Historically, when stocks are weak, bonds tend to be strong as economic pressures subside, and bonds tend to be weak when stocks are strong in a growing economy.

During such times, bonds can help smooth out volatility of total return in a balanced portfolio that includes both stocks and bonds (and, in many cases, cash). While all bonds, including municipals, carry a risk of reduced market value should rates increase, many investors are comfortable with the fact that they will earn a fixed rate (coupon payment) regardless of how the markets perform.

Income is generally exempt from federal income taxes and may be subject to state and local taxes. A portion of the income may be subject to the Alternative Minimum Tax.

Past performance is no guarantee of future results. Rates are subject to market availability.

Salomon Smith Barney does not offer tax or legal advice. Please consult your own tax and/or legal advisor for such advice.

A few good books on finance

A great place to look for information on personal finance is your public library. There's often a large selection of titles in a section(s) labeled: Business, Investing, Real Estate, or Personal Finance.

- **All America's Real Estate Book** by Carolyn Janik

• The New Century Family Money Book

by Jonathan D. Pond. A very thorough, well written, and easy to understand book on all aspects of personal finance.

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Fran Ochman holds some American Eagle gold coins. The case contains silver coins of every denomination.

Make room for metals

Most financial advisors agree that the key to a successful investment strategy is asset diversification. By spreading investments over many different categories, one is sure to get the best possible return. Two types of investment diversification, are gold and silver.

Whether your investment approach is conservative or aggressive, if your objective is safety or growth, gold and silver can play an important role in your portfolio. An easy way to add gold or silver to your portfolio is to invest in legal tender bullion coins.

This can be best explained by understanding some of the facts of gold and silver.

1. There are thousands of distributors nationwide where one can purchase or sell this precious metal.
2. The most popular form of gold is the American Eagle. The eagle comes in four different sizes, 1oz, 1/2oz, 1/4oz, and 1/10oz. The Silver Eagle comes in 1oz size.
3. The American Eagle is the only gold or silver coin backed by the United States Government for weight and content.
4. American Gold Eagles are made from solid gold bars minted right here in America.
5. Profit earned by the U.S. Mint through the sale of these coins are returned to the Treasury Department to help reduce the national debt.
6. To find out exactly how valuable your investment is on any given day, just check the price of gold and silver in the business section of your local newspaper. American Eagles are sold based on the spot price of gold or silver, plus a

small premium to cover manufacturing and marketing costs.

7. The American Gold Eagle is the only gold coin the U.S. Government will allow to be used in Individual Retirement Accounts.
8. Eagles make an excellent gift and can make that special occasion even more special. When you give gold or silver you are giving not only a timeless gift, but an enduring investment. Because the American Eagle is so popular, it is in GREAT demand.

Gold investments can also include numismatic coins such as your \$20, St. Gaudens, \$20, Liberty, \$10, Indian Head, \$10, Liberty, \$5, Indian Head, \$5, Liberty, \$2.50 Indian Head, \$2.50 Liberty Type, and the \$1. The difference between numismatic and bullion coin is in how they are valued. The value of the numismatic coin is determined by a combination of variables including age, rarity, and condition.

Silver investments can also include numismatic coins such as the Morgan or Peace Silver Dollars, United States 90% circulated silver coinage, which would include Dimes, Quarters and Half Dollars dated 1964 and before. Silver Bars and Rounds of .999 fineness also make an excellent way to invest.

As you can see there is a gold coin, silver coin, or bar to fit almost every investment strategy. At the time this article was written the spot price of gold was \$285, and silver was \$5.50.

Remember gold and silver in particular are prime targets for people who fear uncertainty. People traditionally turn to things of substance when times get tough.

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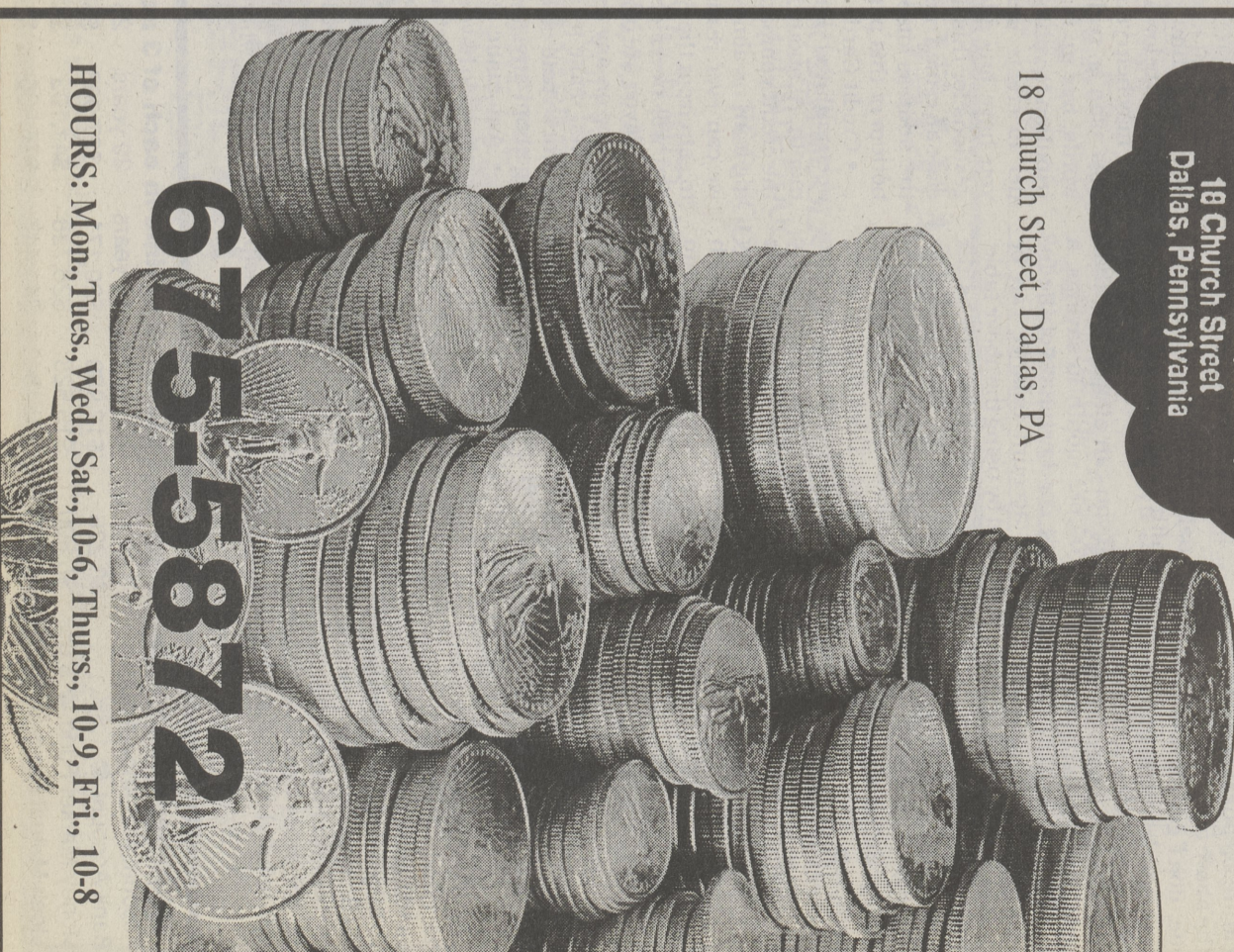
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