Leigh Baldwin & Co.
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LEARN HOW TO RETAIN MORE OF WHAT YOU EARN WITH MUNICIPAL BONDS

its rating generally goes up. However, the bond's yield is likely to drop slightly to offset the cost of the insurance.

Add safety, selection, and tax-free income to your investment mix.

With tax-free municipal bonds you will receive:

- Attractive current income *free* from federal and, in some cases, state and local taxes
- A generally high degree of safety with regard to payment of interest and repayment of principal
- Dependable income
- A wide range of choices to fit your investment objectives for quality, maturity, type of bond, and geographical location

For more information on the bond investment opportunities available in your state, *plus* information on current municipal bond ratings, rates, and maturities, call your ***Leigh Baldwin & Co.*** financial advisor today. ■

[1]Income from tax free municipal bonds may be subject to the alternative minimum tax (AMT) and, therefore, you may need to include interest income from certain municipal securities in calculating the tax.

[2]The income brackets to which the tax rates apply are adjusted annually for inflation. The above 2007 tax rates were obtained from the U.S. Treasury.

"Breakfast on Wall Street"

Listen to Leigh Baldwin and Ken Iselmoe every week as they host "Breakfast on Wall Street" each Sunday morning at 8:00 a.m. on WKXZ 93.9 FM or at 10:00 a.m. on WHEN 620 AM. They will take a look at the week on Wall Street in their own inimitable style.

Leigh Baldwin & Co. Investment Brokerage Newsletter

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The Market is Beginning to Look like the NBA

A cynic might think that the current market environment is reminiscent of the National Basketball Association. No, I am not comparing Wall Street investment bankers with the crooked referee who fixed games, although that may be a story for another time. I am talking about the recent selling pressure that has gripped Wall Street during 2008. There was a time when many basketball pundits would openly admit that you could turn on the last two minutes of an NBA game, and that is all you would need to watch. The score of the game went back and forth and back and forth. Then in the last two minutes, the game was played for keeps, and a winner would leave the arena. During the past two quarters, ending in March and June respectively, the Dow fell 2.1% in the five trading days before the quarter end. The story of the market in 2008 in the last week of the quarterly trading session, can be compared to the last two minutes of an NBA game.

Why has there been such a dramatic selloff during the end of each of these quarters? It may have been due to various factors, but I believe the key can be described in one word: Derivatives. Derivatives are financial products designed by Wall Street professionals that use leverage to replicate the movements in a wide assortment of investments. A perfect example would be the arcane sub-prime mortgage investment pools used by these professionals to transfer the risk of the biggest housing boom on record to yield-starved hapless investors. Once the derivative is created, it is very difficult to price the product, which results in big profits to Wall Street. The second, more important result is that the derivative will continue to be hard to price, in fact almost impossible to price, and in the event of a fire sale, look out below.

That is exactly our current situation. Wall Street, in its never ending search of ways to fleece the public, has accumulated huge amounts of derivative investments. After taking big trading profits, these brokers paid their employees record bonuses over the last three years. (Subsequently, many of these overpaid employees are currently unemployed.) Now we are in the middle of a credit crunch, and the toxic investments, that couldn't be priced, have became totally illiquid. The investment firms are unable to calculate their value. In addition, there were no buyers for these products. So at the end of each quarter, firms such as GE, AIG, C, LEH, MER, must value their investments. The losses are historic and seemingly never ending. That explains the huge write-downs at the end of a quarter and the dramatic selling that follows. For investors, like in the NBA, we should concentrate on the last minutes of the game (or quarter). I believe that fortunes will be made in the financial sector, once we can recognize the winners and the losers. For the next few quarters, investors should remember the companies who are not taking write-downs, who are not raising additional capital and who are honestly reporting their financials. If the market turns higher, these beaten down investments will bounce back dramatically.

Featured Stocks for the Third Quarter 2008

Yahoo (YHOO): YHOO is the original search engine and is in the midst of acquisition talks with Microsoft. I believe that Microsoft desperately wants YHOO (at least the search engine division) and that a deal will get done eventually. If that does not happen, YHOO still has tremendous value and is a solid brand. With the stock trading at $23-24 per share, investors could be well rewarded regardless of the outcome of take-over talks.

Amerigon (ARGN): ARGN has plummeted to about $7 per share (from $19) as they are linked to the decimated new car industry. ARGN has patented and is the largest seller (over 3 million to date) of automobile seat climate control heaters. The stock has a book value of about $4, per share and the company believes that sales can continue to grow at more than 30%. The purchase of ARGN allows the investor to participate in this sector.

Axiom Corporation (ACXM): ACXM is a software company that helps large fortune 500 companies to manage their client base. Priced in the mid-teens ($12 per share), it is trading far from its yearly highs. Before the credit crunch ended several private equity deals, ACXM was a takeover target. With little or no debt and a profitable business, ACXM is poised to rebound if the market turns higher.

Mutual Funds to Watch for the Third Quarter 2008

Leigh Baldwin Total Return Fund: As the newest addition to the world of mutual funds, this fund specializes in generating income and growth by treating stocks as cash generating investments. There are three ways to profit from stock investing: Capital appreciation, dividends, and option income. The Leigh Baldwin Total Return Fund combines these three factors along with a strict capital preservation discipline. The fund aims to achieve total absolute (real) gains to investors in all types of markets.

NNP, NNY, NPT and NXN: These four closed-end mutual funds have tax-free monthly income as their goal. The recent volatility in the credit markets has made these investments attractive on a price basis. The funds offer a wide diversification of municipal bonds with a wide variety of maturities. With yields from 4.5% to 5.2% tax-free, the funds are attractive to investors looking for after-tax yield. ■

Investment Strategies

Investing in Municipal Bonds:

How to retain more of what you earn

Why you should consider municipal bonds in your investment portfolio.

Municipal bonds provide predictable tax-free income.

You want your money to be working hard for you. You also know that this is a time when there are not many new ways to save on taxes. A municipal bond investment, when held to maturity, is a way to preserve your principal while you receive steady, tax-free fixed income.

Current, tax-free income—at a fixed rate.

Depending upon your tax bracket, municipal bonds can help you maximize your after-tax income. Municipal bonds are issued by local or state governments and pay interest that is exempt from federal taxes.[1] You may further realize the benefit of paying no state or local tax if you invest in a bond issued by the state in which you reside.

As more states increase their taxes, the advantages of investing in tax-free municipal bonds that are exempt from both state and local taxes and from federal taxes become obvious. Consider, therefore, whether a municipal bond investment should be part of your tax-free portfolio.

An overview of how municipal bonds work.

Municipal bonds are issued by state and local government agencies in order to raise capital for financing municipal projects—the building or improvement of schools, roads, airports, and so on. Generally, there are two types of municipal bonds you can invest in—General Obligation Bonds and Revenue Bonds.

A **General Obligation Bond** is the most common type of municipal bond and is considered one of the more secure investments available today—backed by "the full faith and credit" of the issuing municipality. The issuing municipality may be authorized to use virtually any means, including their taxing powers, to pay both the interest and principal on time and in full to investors.

A **Revenue Bond** is issued by a municipality or by a special authority to fund specific types of projects, including hospitals, highways, and water and sewer systems. The sale of the services provided by the completed project is used to pay the interest and principal of this type of bond.

Many municipal bonds are rated for their quality by independent rating services such as Moody's Investors Service and Standard & Poor's. Bond ratings are vital benchmarks because they reflect a professional assessment of the issuer's ability to repay the bond's face value at maturity.

Flexibility to choose your own maturity date.

When you invest in a municipal bond, the issuer promises to return your principal in full at the date of the bond's maturity. In the meantime, you also receive regular income payments (usually semi-annually) at the bond's fixed rate for the life of the bond. You have a wide range of bond maturities from which to choose. That way, you can time the return of your principal with your investment objectives.

Many bond issues allow the issuer to call—or retire—all or a portion of the bonds at a premium, or at par, before maturity. When buying bonds, be sure to ask your ***Leigh Baldwin & Co.*** investment advisor about call provisions.

How tax-free yields can benefit you.

Municipal bonds are tax exempt at the federal level and often at the

state and local levels as well. This means that you potentially can receive a much larger after-tax yield than you would by investing in a comparable taxable investment. So it is worth comparing the yields of tax-free investments to taxable vehicles before you invest.

To see how your tax bracket affects your yield, have a look at the following two charts[2].

As you can see, if you are in the 33% tax bracket and considering a municipal bond yielding 4.5%, you'd have to find a taxable investment earning roughly 6.72% to match it.

2007 Federal Income Tax Brackets

Filing Status	15%	25%	28%	33%	35%
Single Return	$7,825–$31,850	$31,850–$77,100	$77,100–$160,850	$160,850-$349,700	$349,700-no limit
Joint Return	$15,650–$63,700	$63,700–$128,500	$128,500–$195,850	$195,850 $349,700	$349,700 no limit

Tax-Exempt/Taxable Yield Equivalents (%)

Federal Income Tax Bracket	Tax-Exempt Yield 2.5%	3.0%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%
15%	2.94	3.53	4.71	6.00	5.29	6.47	7.06	7.65	8.24
25%	3.33	4.00	5.33	6.00	6.67	7.33	8.00	8.67	9.33
28%	3.47	4.17	5.56	6.25	6.94	7.64	8.33	9.03	9.72
33%	3.73	4.48	5.97	6.72	7.46	8.21	8.96	9.70	10.45
35%	3.85	4.62	6.15	6.92	7.69	8.46	9.23	10.00	10.77

For tax-free income, diversification, and choice, consider municipal bond mutual funds.

Like other mutual funds, a municipal bond mutual fund is a managed, diversified investment that issues shares to fund participants and typically pays quarterly dividends. But, because specific bonds in the portfolio are likely to change, this type of fund does not offer the same predictable stream of income, specific maturity date, or return of principal that other bond investments provide.

The large number of municipal bond mutual funds now available let you choose the specific type of municipal bond investment you need. You can select from a range of low-rated, longer-term, higher-yielding funds to high-rated, short-term, lower-yielding funds. If you live in a state with high taxes, you may also want to find a state tax-free fund, which is also exempt from federal taxes.

Three commonly asked questions about municipal bond investing.

■ What happens if I need my principal before the bond's maturity date?

Municipal bonds are traded actively on a daily basis—making them a liquid fixed-income type of investment. While you'll pay no penalty fees if a bond is sold before maturity, your anticipated total returns may change based on a variety of factors. If interest rates have fallen, the value of your bonds will be higher. If interest rates have risen, however, the value of your bonds may be lower than what you originally paid

In either case, when you hold municipal bonds to their full maturity, you'll receive your principal back in full plus a fixed rate of income that is exempt from federal taxes and, in many cases, free from local and/or state taxes as well.

If you have shares in a municipal bond mutual fund, they will be sold at the price in effect on the day you redeem them. Shares are redeemed at current net asset value, which may be more or less than the original cost.

■ How are municipal bonds rated?

Many municipal bonds are rated by independent companies like Standard & Poor's and Moody's Investors Service. In determining a rating for general obligation bonds the rating agencies consider: The general economy, debt structure, financial condition, demographic factors and management practices of the governing body and administration. As with any investment decision, you should consider the trade-offs.

A higher bond rating generally means a lower yield, and vice versa.

Municipal Bond Ratings

	Standard & Poor's	Moody's
Best Quality	AAA	Aaa
High Quality	AA+ AA AA-	Aa1 Aa2 Aa3
Upper Medium	A+ A A-	A1 A2 A3
Lower Medium	BBB+ BBB BBB-	Baa1 Baa2 Baa3
Speculative	BB	Ba
Very Speculative	B, CCC, C	B, Caa
Default	D	Ca, C

■ Are individual municipal bonds insured?

General obligation municipal bonds are backed by "the full faith and credit" of the issuing municipality and are considered to be among the most secure investments available today.

Many municipal bonds are backed by municipal bond insurance specifically designed to reduce investment risk. In the unlikely event of default, an insurance company that guarantees payment will send you both interest and principal when they are due. When a bond is insured,