WORTH MAGAZINE ESTABLISHED 1992

MAKE
What entrepreneurs need to know about social media. Plus: Could AT&T survive without the iPhone?

GROW
10 new strategies for high net worth investors; crucial questions for your financial advisor.

LIVE
10 exotic adventures for philanthropic travelers; how to fight back against a blackmailer.

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

ARE WE OUT OF THE WOODS YET?

WORTH.COM

06

VOLUME 19 | EDITION 03

Fairfield County, CT | **Leading Wealth Advisor**
LLBH Private Wealth Management
Kevin Burns, Partner, Bill Loftus, Partner
Bill Lomas, CFP®, Partner
Jim Pratt-Heaney, CIMA®, Partner

"Is my municipal bond portfolio healthy?"

By Jim Pratt-Heaney

More people are retiring than ever before, and income is becoming more relevant to their lives. Considering that tax rates may head higher, tax-free bonds might make sense for your portfolio. **But…given the poor fiscal health of many municipalities, high net worth investors who have a significant part of their financial assets in municipals must be extra careful with this asset class.**

You should not be passive when it comes to determining the health of the bonds you own or want to buy. It is difficult for individual investors to look at a municipal bond and know what they are really getting unless they have significant time to investigate or they hire someone to do the proper research for them. Even professionals have more difficulty getting information about municipal bonds than, for example, a stock, for which they can get research reports or go to company websites.

The municipal bond market can be like the Wild West. While underlying bond ratings are a strong indication of the quality of a bond issuer, investors rely on rating agencies, and municipalities may not provide timely updates on their credit ratings. Many bonds have not had their ratings updated since being issued. Is the quality of that bond the same many years after it was issued, or has the municipality's fiscal health deteriorated? You need to know.

Your municipal portfolio should be reviewed by several unbiased professionals, not the person who built the original portfolio. Many advisors will review a portfolio without charge—and there is much to review.

Do you have all your municipal bonds in one state? Does that make sense? Should your portfolio be rebalanced from longer maturities to shorter ones? Conventional wisdom says that interest rates might rise soon. If so, the price of taxable bonds could fall, but not necessarily the price of nontaxable muni bonds. Between December 2003 and September 2006, federal funds rose from 1.0 percent to 5.25 percent, yet municipal prices rose between 6 percent and 20 percent in value. Conventional wisdom was wrong.

When determining the balance of short- and long-term bonds, professionals need to factor in interest rate behavior. Many bonds have extraordinary call provisions that may result in a dramatic loss of income. Do you know which of your holdings could pay early and how to reinvest those proceeds?

Consider taxable bonds in your muni portfolio, even if you are in a high tax bracket. In today's environment, some municipal yields have dropped so low that taxable bonds, after tax yields, may be higher than municipals. Does it make sense to swap bonds to realize a taxable loss or gain?

Through active management, an investor also retains the flexibility to navigate to the most attractive areas of the market, away from troubled waters.

How much of my portfolio should be invested in municipal bonds? Remember when you were advised that you could determine your equity portfolio by subtracting your age from 100? Given longer life spans, that strategy certainly will not work now. Careful planning is required to determine proper asset allocation. Remember that like all markets, the municipal market is complex, with both pitfalls and opportunities for investors, and often conventional wisdom does not work.

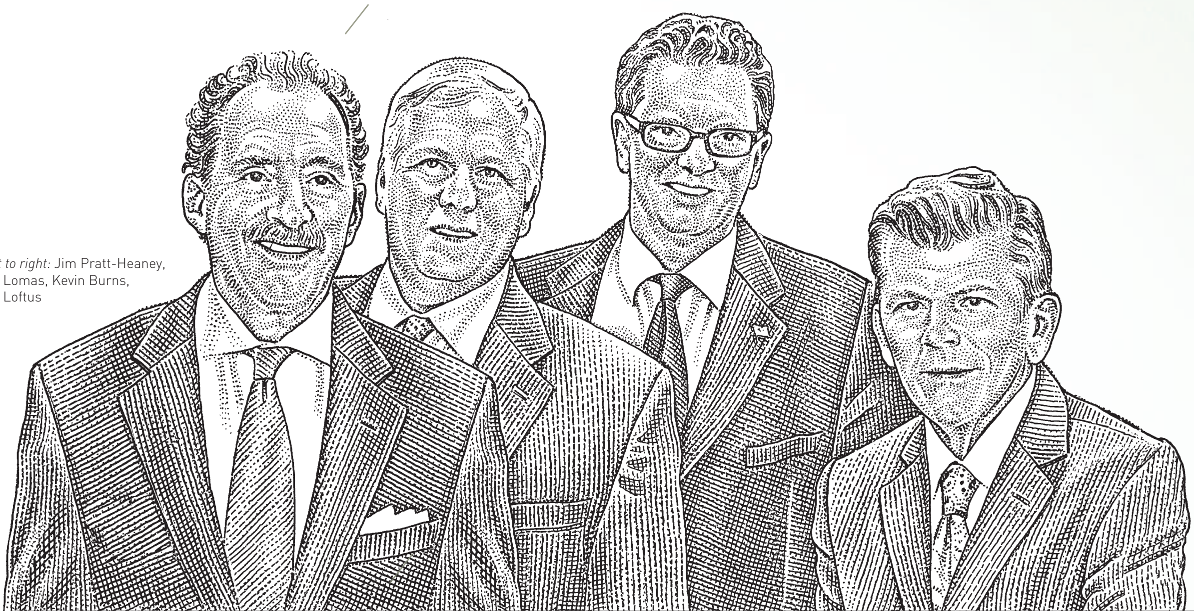
In summary, the bond market is often as volatile as the stock market, but opportunities exist to swap bonds, change maturities and take advantage of potential rating upgrades, etc. As a result, capital gains can also be a major part of your total return in this asset class. To take full advantage of those opportunities, it is imperative that professionals review this important part of your investment portfolio.

“The municipal bond market can be like the Wild West.”

– Jim Pratt-Heaney

How to reach Jim Pratt-Heaney

I look forward to discussing how I can help you reach your financial goals. I can be reached directly at 800.700.5524.



Left to right: Jim Pratt-Heaney, Bill Lomas, Kevin Burns, Bill Loftus

About LLBH Private Wealth Management

After 15 years teaching, Jim Pratt-Heaney joined EF Hutton in 1986. He became a vice president at Smith Barney before moving to Merrill Lynch in 1998. He is a certified investment manager analyst and leads LLBH's asset management. Bill Lomas started with Paine Webber in 1981, spent 18 years as a senior vice president at Prudential Securities and Smith Barney and joined Merrill Lynch in 1998. Mr. Lomas, a Certified Financial Planner and chartered retirement planning specialist, leads LLBH's holistic investment planning process. Kevin Burns, whose career began at PaineWebber in 1981, became a senior vice president at Oppenheimer & Co. and Smith Barney before joining Merrill Lynch in 2000. He leads LLBH's new client asset acquisition and client service and contact operation. In 1986, Bill Loftus joined Merrill Lynch then spent 10 years as a senior vice president at Smith Barney before returning to Merrill Lynch in 1998. He leads LLBH's corporate executive advanced wealth planning, lending and alternative investments.

Assets Under Management
$600 million (team)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$10 million (for investment services)

Largest Client Net Worth
$100 million

Financial Services Experience
120 years (combined)

Compensation Method
Asset-based

Primary Custodian for Investor Assets Pershing

Professional Services Provided
Planning, investment advisory, money management, advanced wealth transfer planning and corporate services

Association Memberships
Investment Management Consultants Association

Website
LLBHpwm.com

Email
jpratt-heaney@llbhpwm.com

LLBH Private Wealth Management | 33 Riverside Drive, 5th Floor, Westport, CT 06880 | 800.700.5524

Kevin Burns
Partner

Bill Loftus
Partner

Bill Lomas, CFP®
Partner

Jim Pratt-Heaney, CIMA®
Partner

LLBH Private Wealth Management
33 Riverside Drive
5th Floor
Westport, CT 06880
Tel. 800.700.5524

Email: jpratt-heaney@llbhpwm.com
www.LLBHpwm.com

LLBH Private Wealth Management

REPRINTED FROM
Worth®
THE EVOLUTION OF FINANCIAL INTELLIGENCE