

## Making the Most of Munis

Municipal bonds may seem like an obvious investment choice, particularly if you're in a high tax bracket: Their interest payments are exempt from federal income tax. But there are other factors to consider.

### Your Home State

Interest income from munis issued by your state of residence is often free from state tax. If you live in a high income-tax state, holding in-state munis or muni funds may be a great way to reduce your tax bill. If you live in a low- or no-tax state, there isn't much advantage to limiting yourself to in-state municipal bonds. Check with your advisor to see if an in-state muni fund would benefit you.

### Munis vs. Treasuries

Many municipal bonds recently offered higher yields than comparable Treasury bonds. But if you're in a high tax bracket, municipal bonds might be attractive even if their yields drop below those of Treasuries.

### Tax-free vs. Taxable Bonds

Munis that pay a lower pre-tax yield than taxable investments may actually provide greater after-tax income. To compare the two types of bonds, consider the yield a taxable bond would have to pay after taxes to match a muni bond's yield. Your advisor can perform this calculation for you.

While municipal bonds have historically been considered relatively conservative investments, they do, like all bond investments, carry risk, and it is possible to lose money while investing in them. Current market values may be hard to determine because many municipal bonds trade infrequently.

A bond's market value may change for reasons having nothing to do with the financial condition of the issuer, such as a change in interest rates.

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