Dynamic Chiropractic

Investing in Municipal Bonds

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Because of the yields touted by promoters of higher risk investments such as real estate, stocks and bonds, municipal bonds are often overlooked by the doctor of chiropractic as a sound investment.

With the current yield on municipal bonds being approximately 7.4% and considering the fact that the earnings are tax free, this translates to a taxable return of 10.3% if the DC is in the 28% tax bracket.

The DC, however, should become knowledgeable as to what municipal bond best suits him since not all municipal bonds are tax exempt. If the municipal bond was issued prior to August 8, 1986, it is still tax exempt, but if it was issued after that date, study will be needed because whether it is exempt or not depends on how the funds generated by the bond money are utilized.

For example, if the DC living in city "X," buys a municipal bond and the funds are used for the creation of a convention center, the chances are that the income derived from that bond will be fully taxable. On the other hand, if the bond funds are used for a sewer district, an airport, or transportation facilities, the income may not only be taxable but subject to the alternative minimum tax.

Where Do I Buy These Bonds?

Bonds may be purchased from a variety of sources but usually, if the bond has a face value in excess of $5,000, the purchase is made through a broker.

How Do I Know If This Is a Good Bond or a Bad Bond?

Before the DC invests his hard-earned dollars in a municipal bond, there are several considerations:

1. Does the bond have a good credit rating? Most bonds are held for ten years or more and, therefore, one must be certain to check out the credit rating of a particular bond.

2. Is bond insurance available? This is usually a good idea if the insurance is not too costly.

3. Can the issuer of the bond redeem it before it matures? This is something the DC would not want since, if interest rates fall (as they are anticipated to do), the issuer may redeem the bonds which forces the DC to search for a higher return and another type of investment.

Is a Bond Different Than a Mutual Fund?

Municipal bonds are often very difficult to liquidate on short notice. If the DC is concerned about access to his funds, he may wish to consider a mutual fund instead. The mutual fund might use, as its investment vehicle, municipal bonds; and by investing in the funds rather than by buying the bonds individually, the DC obtains a share of a large variety of different kinds of municipal bonds. The DC, of course, must be careful to check out the historical yield of the mutual fund as contrasted with other mutual funds. The DC will want to know whether this mutual fund is investing in tax exempt bonds only and whether it is tax exempt federally as well as protected from state taxes. The DC must examine all charges associated with the acquisition into the fund including what the management would charge for running the fund.

The DC would also want to individually check out the types of municipal bonds purchased by the fund and their particular credit ratings as well.

In sum, municipal bonds can be a good investment. To determine whether the municipal bond investment is for you, the DC should compare the investments available to him and determine the after tax yields. Since most municipal bonds are tax exempt, the DC would need to convert the tax exempt rate to an equivalent rate on a taxable investment. Generally speaking, a DC in the 28% tax bracket would need to invest in a taxable investment yielding 11.1% to out perform a tax exempt bond paying 8%.

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