

Looking for Yield and Safety in The Recession: The Case for Corporates

*RegisteredRep.com Webinar
May 28, 2009*

Incapital.com

Not for Redistribution Not to be shown to individual investors.



Agenda

- I. Taxable fixed income: What are your options?
- II. Bonds vs. bond funds
- III. Building taxable bond portfolios
- IV. Taxable fixed income options
- V. Rate Comparison
- VI. Resources for advisors
- VII. Sample Ladders

Taxable Fixed Income: What are your options?

◆ Taxable Bonds

- Treasuries / TIPS
- Certificates of Deposit / FDIC-backed Notes
- US Agencies
- Corporate Notes
- CMOs, High Yield, Build America Bonds

◆ Bond Funds

- Mutual Funds
- Bond ETFs

◆ Other

- SMAs
- Preferreds, Closed End Funds, Dividend Plays

Bonds vs. Funds

| | Bonds | Bond Funds |
|-----------------------------|---|---|
| Maturity (Call) Date | Known | No Maturity Date -- 'Rolling' |
| Minimum Investment | Varies from \$1,000 to \$5,000 | Varies from \$1,000 to \$10,000+ |
| Increments | Typically \$1,000 | Variable |
| Redemption | At Maturity (Par) | At Current NAV |
| Interest Rate Risk | Declines as Bonds Near Maturity | Constant |
| Liquidity | Active Secondary Market For High Quality Bonds | Daily Liquidity, Subject to Fund Restrictions |
| Up-Front Fees | Commission or Issuance Fee Generally Built Into Price | Some Have Commissions; Others No-Load |

Bonds vs. Funds

| | Bonds | Bond Funds |
|--------------------------|--|--|
| Ongoing Expenses | None | Management Fees and Other Operating Expenses Range from .25 to 1.50 Basis Points per Annum |
| Default Risk | Depends on Credit Quality | Depends on Portfolio Composition |
| Portfolio Control | Customized Portfolios | Professionally Managed |
| Taxes | Tax Consequences are Typically Clear | Can Have Unexpected Capital Gains Distributions |
| Other Factors | Fully Invested | Fund Managers Must Keep A Portion of the Funds Ready for Redemption |
| Types | Vary By Issuer, Maturity, Interest Rates, Redemption and Estate Features, New Issues, Secondary, Credit Quality, Step/Call Structure | Open-End Mutual Funds, Closed-End Funds, Unit Investment Trust, Exchange-Traded Funds (ETFs) |

Individual Bonds vs. Bond Funds/ETFs

Key Distinctions:

- ◆ **Performance of Funds.** Relative to their relevant index, almost 85% of bond funds underperform over a five year period*. Strategies employed by most active managers do not justify their added fees.
- ◆ **Principal at Maturity.** Individual bonds have the simple advantage of a clear maturity date. This is not the case with bond funds or ETFs, which have no stated maturity. Bond funds and ETFs typically have a 'rolling' average maturity date, with no certain maturity value.
- ◆ **Predictable Income.** An advantage of fixed-rate individual bonds is that investors know the exact interest payment stream they will receive. Income streams from bond funds and ETFs also are not predictable.
- ◆ **Portfolio Control.** With individual bonds, the investor controls which bonds are held in the account. With bond funds and ETFs, an ever-changing assortment of securities is under the control of the fund or index manager.

- Source: Vanguard.com/Lipper

Bonds vs Funds: Key Distinctions

- ◆ **Fully Invested.** Purchasing individual bonds means all of your money is fully invested at all times. Bond fund managers must keep a portion of the funds ready for redemptions, reducing overall returns. ETFs can have significant transaction expenses, especially for smaller investment amounts.
- ◆ **Yield to Maturity.** With fixed-rate individual bonds, investors know the exact yield to maturity (or yield to first call date) at the time of purchase. With bond funds (like stock funds), neither the income nor maturity value can be known in advance. Returns on ETFs are dependent on the relevant index.
- ◆ **Ongoing Fees.** Management fees and other operating expenses affect the performance of bond funds and ETFs. For individual bonds, a transaction fee is typically included in the purchase price of the bond. The stated yield accounts for this charge, and there are typically no additional costs incurred until the bonds are sold, called, or mature.
- ◆ **Taxes.** The tax consequences of holding fixed-rate individual bonds are usually much clearer than bond funds. Bond funds have an uneven income stream and can have unexpected end-of-year capital gains distributions. With individual bonds, tax considerations are more predictable.

Building Taxable Bond Portfolios

◆ Laddering Maturities

- Rungs of ladder across curve
- Equal amounts in a range of maturities
- Be alert to call risk

◆ Diversifying Credit Exposure

- High quality ratings
- Limit exposure to any one name

◆ Overall Portfolio Risk/Return

The return on a laddered portfolio is typically higher than a portfolio of only short-term issues. The overall portfolio risk would also be less than a portfolio of only longer-term issues. When compared to buying bonds of a single maturity, the laddered approach offers potential protection against interest rate changes while providing a predictable stream of income.

Agencies

- ◆ GSE markets offer opportunities for a range of investors
 - Considered to have government guarantee
 - Offer good relative value
 - Callable options to pick up yield premium
 - Available in retail note programs / survivor's option
 - Issuers include Freddie Mac, Fannie Mae, TVA and Federal Farm Credit Banks

CDs

- ◆ Investor demand for CDs is still high
 - Safety is primary concern for investors
 - Attractive yields relative to Treasuries
 - Alternative to short term investments such as Money Market Funds
 - **New FDIC limit approved last week:**
Increased FDIC insurance to \$250,000 through December 2013

Corporate Bonds

- ◆ Corporate bonds offer relative value in current market environment
 - Attractive relative to UST's & as alternative to underlying equity
 - Longer maturities offer rate lock-in options
 - InterNotes and similar programs are a significant market
 - Corporate note programs offer convenience and accessibility
 - Current active issuers include Caterpillar Financial, Dow Chemical, GE Capital, Goldman Sachs, and NRUC
 - New issuers are on the way

Rate Comparison

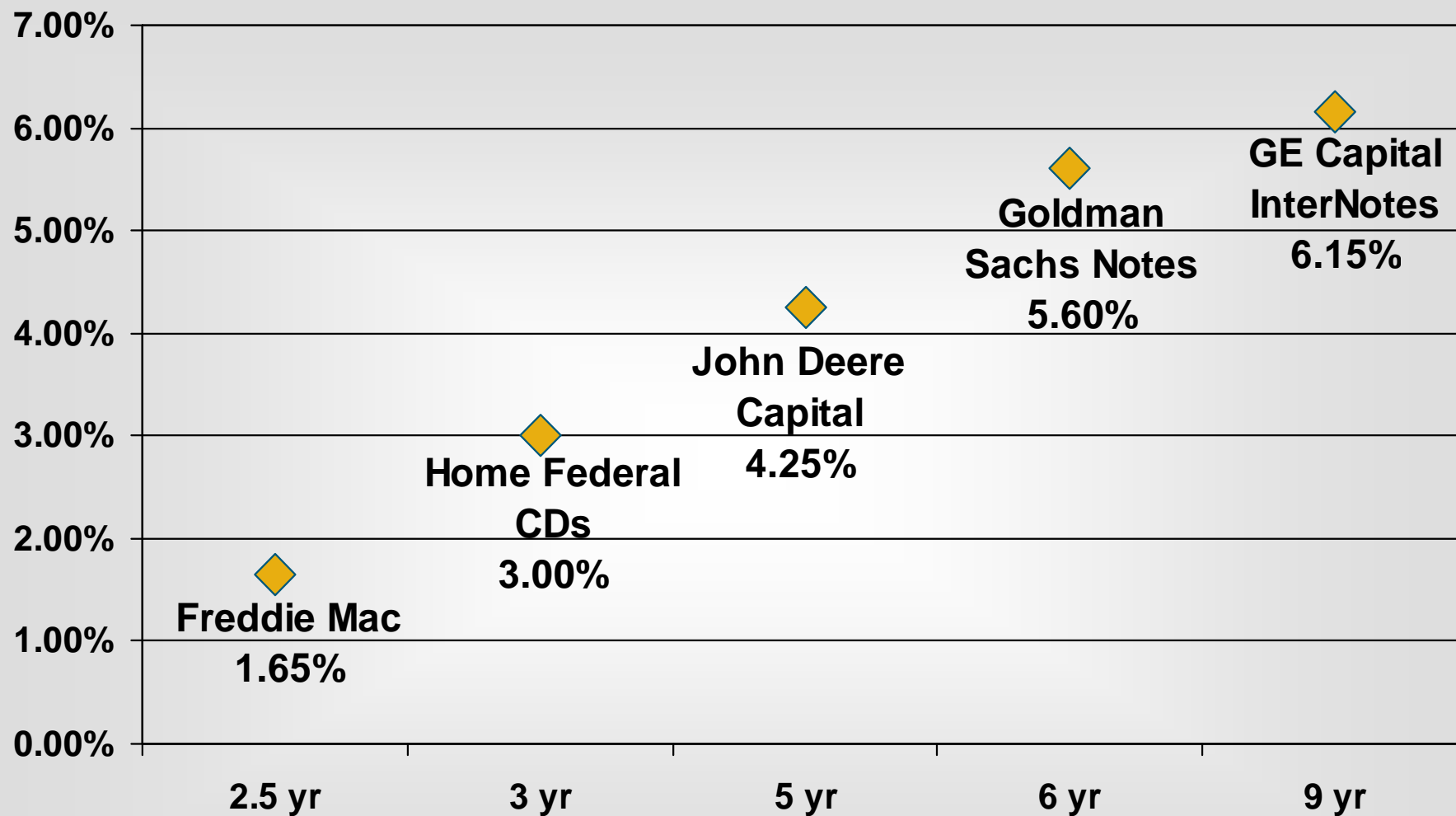
Rate Comparison on May 27, 2009

| | <u>2 Year</u> | <u>5 Year</u> | <u>10 Year</u> |
|----------------------|---------------|---------------|----------------|
| Treasuries | 0.90 | 2.25 | 3.50 |
| Agencies | 1.25 | 2.80 | 3.95 |
| CDs | 2.10 | 3.25 | 4.55 |
| AA Corporates | 3.55 | 5.65 | 6.20 |
| A Corporates | 4.25 | 5.70 | 6.75 |

Not for Redistribution Not to be shown to individual investors.

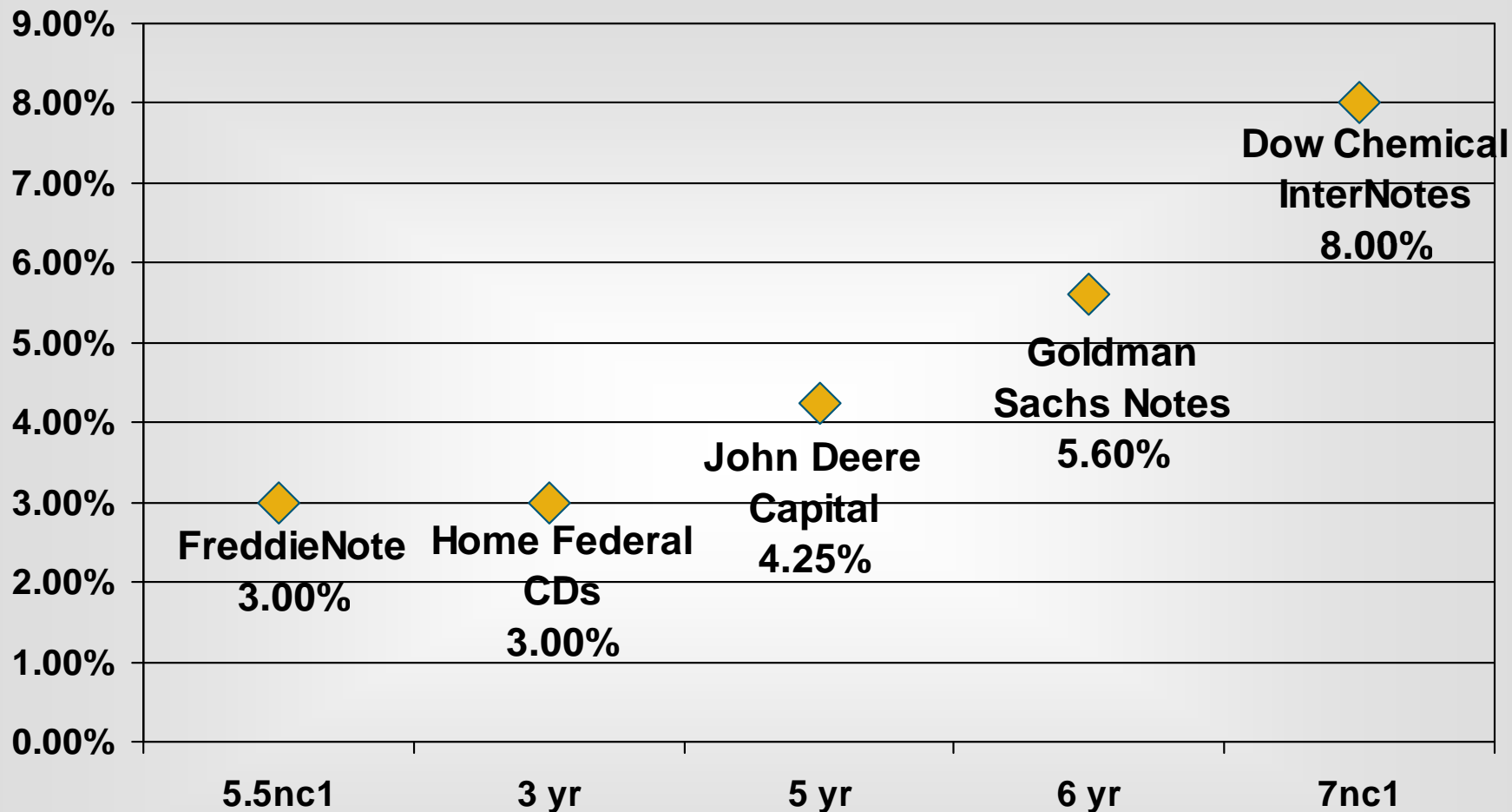


Bullet Ladder Example: Blended Yield 4.35%



Not for Redistribution Not to be shown to individual investors.

Add Callable Bonds: Blended Yield 5.45%



Not for Redistribution Not to be shown to individual investors.



Online Resources

- ◆ InvestingInBonds.com
- ◆ BondsOnLine.com
- ◆ Moody's.com
- ◆ RatingsDirect.com (S&P)
- ◆ BondEdge.com

- ◆ InterNotes.com
- ◆ Incapital.com

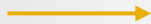
InterNotes.com

- ◆ Advisors can view current offerings, register for email rate updates, download marketing materials, and view previous week's pricing supplements.

**Current Rates
Prospectuses
News**



Build a Bond Ladder



Estate Feature Information



**Sign-up for weekly
rate emails**

