

FROM THE BSI TRADING DESK

MY TRADERS AND I ARE ALWAYS SEARCHING THE SECONDARY MARKET FOR HIGH QUALITY MUNICIPAL BONDS WHICH OFFER HIGHER THAN MARKET YIELDS, i.e., VALUES!!! WE OFTEN FIND EXCELLENT VALUES BIDDING AND PURCHASING "**CUSHION**" OR "**KICKER**" BONDS. THESE ARE BONDS WHICH WERE ORIGINALLY ISSUED IN A HIGH INTEREST RATE ENVIRONMENT AND CAN BE CALLED BY THE ISSUER WITHIN THE NEXT FEW YEARS.

BECAUSE INTEREST RATES ARE CURRENTLY MUCH LOWER THAN WHEN THESE BONDS WERE FIRST ISSUED, THE BONDS TRADE AT A HIGHER DOLLAR PRICE (PREMIUMS).

THE INVESTOR EXPECTS TO BE PAID FOR THE RISK OF LOSING THE BOND TO THE SHORT CALL DATE. WE OFTEN FIND BONDS WHICH AMPLY PAY THE HIGHER RATES NEEDED TO COMPENSATE FOR THE CALL RISK.

MANY INVESTORS HAVE AN AVERSION TO PAYING A PREMIUM. THEY DO NOT UNDERSTAND THE PREMIUM CONCEPT AND I FIND THAT SALESPEOPLE OFTEN DO NOT TAKE THE TIME TO EDUCATE THE CLIENT ABOUT PREMIUMS AND THE "**CUSHION BOND**" CONCEPT.

FOR THESE REASONS, EXCEPTIONAL "**CUSHION BOND**" VALUES CAN BE FOUND. **IF** YOU ARE WILLING TO (1) RISK LOSING THE HIGH COUPON AT THE BOND'S CALL DATE, (2) PURCHASE BONDS WITH HIGH PREMIUMS AND (3) UNDERSTAND HIGHER RATES IN THE FUTURE WILL MEAN THE BOND PROBABLY WILL NOT BE CALLED AND YOU HAVE A BOND WHICH WILL RUN TO MATURITY, WE CAN FIND GREAT VALUES FOR YOUR PORTFOLIO.

THE EXAMPLE BELOW MAY BETTER EXPLAIN THE CONCEPT BUT, IN ANY EVENT, IF YOU ARE WILLING TO LEARN MORE ABOUT "**CUSHIONS**", I ASSURE YOU YOUR SALES REPRESENTATIVE WILL BE ABLE TO SHOW YOU VALUE UPON VALUE vis a vis MANY OF THE OTHER MUNICIPAL BONDS THE MARKET HAS TO OFFER. **EXAMPLE ONLY:**

EVERGREEN PARK, ILLINOIS (LITTLE COMPANY OF MARY HOSPITAL) REVENUE BONDS
MBIA INSURED AAA RATED BY MOODY AND STANDARD AND POOR

7.75% COUPON MATURING 02/15/2009 CALLABLE BEGINNING 02/15/1998 @ 102

THE BOND IS TRADING AT \$107.22. THIS IS A 4.60% YIELD TO THE 1998 CALL. IF THE BOND IS NOT CALLED, THE YIELD TO MATURITY WOULD BE OVER **6.85% TAX FREE**. SIMILAR QUALITY, NEW ISSUE BONDS ARE PRICED TO YIELD •+ 5% IN 1998 AND 5.65% IN 2009.

LOU LAMBERTI, JR.
VICE PRESIDENT & HEAD TRADER

WHERE DO WE "FIND" BONDS?

THE ANSWER. MANY SOURCES, INCLUDING

(1) **THE PRIMARY MARKET**
MUNICIPALITIES, SCHOOLS, ETC. ISSUING NEW DEBT. WE BID AND/OR NEGOTIATE FOR THESE BONDS.

(2) **THE SECONDARY MARKET**
THIS INCLUDES BIDDING BONDS "ON THE WIRES" i.e. BROKERS' BROKERS, BOND LIST FROM BANKS, OTHER DEALERS, ESTATES & CLIENTS.

THE SECONDARY MARKET IS HUGE... WE CONTINUALLY MONITOR, RESEARCH AND BID MILLIONS OF BONDS EACH AND EVERY DAY.

WE HAVE FIVE INDIVIDUALS WORKING THE PRIMARY MARKET, THREE TRADERS WORKING **BOTH THE** PRIMARY AND SECONDARY MARKET AND THREE BSI OFFICERS CONSTANTLY CHECKING AND MONITORING OUR BUYERS ACTIVITIES.