

Looking Back... Looking Ahead

1998 was a record year for the Municipal Bond Market in many respects. It was also a banner year for Bernardi Securities. I thank all of our clients and friends for their continued confidence in us.

Tax-exempt issuers, taking advantage of growing tax and revenue bases, favorable referendum results and the low interest rate climate sold more new money debt than in any previous year. Municipal and Government Agencies sold over \$284 billion (\$152 billion new money) which is \$8 billion less than the record set in 1993. Last year's totals were up nearly 10% from 1997. We are pleased to report that *Bernardi Securities, Inc.* played an important role in this area.

Once again we ranked 2nd nationally in number of Illinois bond issues underwritten and managed. In 1998 we underwrote 55 issues in the State of Illinois and dozens more throughout the Midwest.* This issuance growth was fueled partly because long-term taxable bond rates declined substantially in 1998. The 30-year Treasury Bond yielded 5.74% on 1/8/98 vs. 5.08% at year-end. Tax-exempt bond yields also declined, although much less than Treasury yields. For example, the 25 Revenue Bond index began the year at 5.32% and finished at 5.26%.

As a result, municipal bond yields, although lower today than a year ago, have been and remain, an outstanding value. **Municipals are under priced and, in our opinion, adding to one's municipal bond portfolio is a sensible option at this time.**

However, before adding to the portfolio, a portfolio review is recommended to help determine what part of the yield (interest rate) curve is most attractive now and how this fact fits with one's particular situation. If you have not reviewed your portfolio and strategy in the past year, we recommend that you do so. Our Investment Specialists are available to consult with you.

We do not anticipate a significant decline in long-term taxable interest rates in 1999, although the ratio of tax-exempt to taxable rates should realign itself to the historical range (80-82%). Barring a significant drop in rates, new issue volume should drop off a fair amount from the 1998 totals, giving further reason for tax-exempt rates to drop relative to their taxable counterparts.

We look to 1999 and the new century with great expectations and excitement. We look forward to continuing to excel for our clients and thank all of you who have entrusted some of your future to us over these many years.

Ronald P. Bernard, President

*Source - Securities Data Company