

Letter From Our President

We are very pleased to relate that in a recent national rankings report,* *Bernardi Securities, Inc.* placed second in the number of Illinois municipal bond issues underwritten and managed. Between 10/01/95 and 9/30/96, *BSI* underwrote and managed over \$84 million par value bonds issued by over 46 different communities in Illinois including debt issued by the Department of Central Management Services for the State of Illinois. We are also, and will continue to be, a potent market factor in Indiana, Wisconsin, Michigan and Minnesota area municipal bond financing.

What Does This Mean to Our Clients?

- First call access to debt issued by communities with which we are exceedingly familiar. We call you first. Our only obligation is to you and we make sure you are given the option of first refusal in nearly every issue we underwrite.
- We maintain an active secondary market in any issue we underwrite. We do not "sell and run"; we have a commitment to you as long as you own any bond you purchase from *BSI*.
- Our practice is to remain in contact with the issuer year after year. Many of the bond refundings in which we are involved were concluded because of our ongoing contact with these issuers.
- These contacts enable us to evaluate the credits long after the original financing.

What is the Secondary Market?

When you invest in bonds first issued by the original borrower, you are purchasing "primary market" bonds. Bonds you own and wish to sell, are sold in the "secondary market", the buyer of *your* bonds would buy your bonds in the "secondary market". We do a huge secondary market business. In 1996, for example, the total par value secondary market bonds traded by *BSI* exceeded \$344,000,000! Our traders constantly scan the wires, estate lists, institutional portfolios, other dealers' inventories, etc. trying to find "value" for you. Our traders are guided, in great part, by our clients' "looking for" requests. Using your guidelines, our traders work hard to find the right bond to fit within your investment parameters. Please call us in advance of funds due dates so that we can search for you.

Are Bonds Old Fashioned?

Recent stock market success has led some investors to believe muni-bonds have become "old fashioned". Well, if compound interest is passé, I guess bonds are passé. Investments should be driven by the amount of risk one can absorb and by the relative value between equities and bonds. We currently have a huge yield gap. The S&P 500 Index yield is about 2%. As of this writing, ten year U. S. Govt.'s are at 6.75%. Stocks purchased today will need to appreciate about 450 basis points each and every year to make up the difference! Also, unless equities are held in non taxable accounts, gains are taxable and profits will need to far exceed the 450 basis points! Secondly, for high-tax bracket individuals the spread between taxable and tax-free bonds remains significant thus creating an even disparity between the two.

We appreciate your patience during the Pershing conversion. Thank you for your support and understanding. Thank you for your friendship and may the New Year bring you joy, love and good health...the rest will take care of itself.

Ronald P. Bernardi
President