Safe Havens In a Stormy Market for Muni Bonds.

Reading a municipal bond prospectus isn't the most entertaining or easiest of reading you'll ever do. But for municipal bond investors, it is mandatory.

In today's credit-crammed society, it's easier to tiptoe around the municipal bond sinkholes than the corporate ones. Yet investors who ignore the details in a municipal bond offering and remain exclusively yield driven will suffer the consequences of credit quality and price erosion.

The muni sinkholes are numerous but easily avoided if you read the public information. Take for example the Board of Education of the City of Chicago (aka Chicago Public Schools, CPS). This school system has financially collapsed. The Chicago Public School system has for years had the same approach to debt management as Puerto Rico—NONE.

Management has issued more and more debt, papering over deficits and never displaying the will to take corrective action. Their ineptness is clearly spelled out in the $875 million January 14, 2016 municipal offering that was pulled due to lack of investor interest. This offering listed for investors all the things they never, ever wanted their bonds to be involved with. It contained words and phrases like: *The Pension Fund is underfunded; swap terminations; credit downgrades; operating budget gaps; structural deficits.* You get the idea.

The 28-year tax-free CPS municipal bonds were going to be offered at 7.75%. This is a whopping 5% more than a comparable investment grade muni. Geeze…the more one reads the more the Chicago School System mirrors Puerto Rico.

I am not saying a deal won't eventually close. But it's curious that the hedge funds already burned by the Puerto Rican folly barely showed a pulse for the CPS debt.

Retail investors don't belong in B2 rated junk municipal bonds like Chicago Public Schools. Instead, invest in pristine, highly rated tax-free municipals that will preserve capital. There are dozens of ways to take investment risk—municipals should not be among them.

Stick with the boring, reliable, and trustworthy names you know. If you are public minded and want to loan money to a school system, then consider the Texas Permanent School Fund backed munis (PSF).

The PSF fund has been around since 1854. Stocks, bonds, real estate, mineral rights and commodities back it. Such a guarantee is exceptional. Plus, its management and good history puts the old-line municipal bond insurers to shame. According to the Texas PSF unaudited financials, total assets are $28.95 billion. Not every year is a financial winner but you can bet the PSF won't rubber stamp or guarantee any bonds without proper due diligence.

Consider the newly issued Grand Prairie Texas Independent School District General Obligation bonds, 4.00% due August 15, 2029 CUSIP: 386155DR3. Grand Prairie has a population of 138,000 with a growing economy. It is a stone's throw from the Dallas-Fort Worth-Arlington area. School

enrollment is a hair over 29,000 and has grown about 2% since 2012.

Bonds on their own are rated AA-. With the PSF Guarantee they are AAA rated. These bonds are an excellent credit on their own but should a financial calamity occur, the Permanent School Fund steps up and pays the interest and principal.

The district has a fund balance and has made its 2014 pension and other post-employment payment obligations. The ten largest taxpayers represent 9.2% of net taxable assessed value. Bonds yield 2.42% to the February 15, 2026 call and 2.75% to the August 15, 2029 final maturity. That's a 4% taxable equivalent yield to the call if you are in a 39.6% Federal bracket and 4.56% TEY to maturity. Plus, there's no 3.8% ObamaCare tax if you meet the net investment income and adjusted gross income thresholds. Good quality munis for baby boomers are a win-win.

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