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Municipal Bonds Suddenly Look Cheap. Some Are Tax Traps.

Investors are bailing out of municipal bond funds at a record pace, but bargain hunters should beware of some potential pitfalls

When the investing herd stampedes in one direction, it can pay to go the opposite way—but only if you step carefully.

Consider municipal bonds, long cherished by individuals looking to earn tax-free investment income. Their prices have been falling this year as interest-rates rise and bonds overall have entered a bear market.

That has many investors on the run. In the first eight months of 2022, investors have pulled an estimated $83 billion from mutual and exchange-traded funds specializing in municipal debt, according to Refinitiv Lipper. That's more than in any full year on record.

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The Wall Street Journal

By Jason Zweig

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