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Forbes: 5 Reasons To Still Consider Munis In 2014.

No doubt, there were some "bumps" on the muni highway in 2013. QE tapering, rising rates and a liquidity crunch stemming from industry outflows dramatically impacted the market. But let me share with you, the five top reasons our MacKay Municipal Managers (MMM) team, led by John Loffredo and Bob DiMella, think munis are an attractive investment for 2014.

1. Municipal Market Supply and Demand Technical Features Provide Relative Price Support in 2014.

MMM anticipates issuance supply to continue to decline toward all-time lows – as a result, the amount of bonds outstanding in the muni market will recede for the third consecutive year.

But at the same time, demand should rise for two key reasons: baby boomers have begun transitioning towards retirement and are increasingly looking for tax-exempt income, and the reality is setting in that higher tax rates have arrived on both earned and unearned income, increasing the tax burden for individuals.

2. Local General Bond Obligations Look to Outperform.

Sure, Stockton, Harrisburg and Detroit tarnished munis' reputation. But these are local events and in MMM's opinion are not symptomatic of the market at large.

The credit profile of local governments is improving as property valuations rise, local sales and income taxes increase, and reform of public employee pension plans accelerates. Bob also mentioned that state governments – after resolving their own financial challenges – are better positioned to increase aid to local governments. Not all is bright, however as one major credit may regress financially: New York City.

3. The Municipal Market Refocuses on Monoline Insurance in Secondary Trading.

The market seeks to reassess the value of bond insurance as the volatility increases for some distressed credits, such as Puerto Rico. Wrapped muni bonds of such issuers aim to maintain more of their value, which is attributable to the insurance protection. The improved financial strength of many insurance providers should further drive the recovery in the price of insured bonds.

4. Lower Investment Grade & High Yield Municipal Credits Seek to Outperform.

Treasury rates are poised to continue to rise: Low investment grade and high yield munis have historically outperformed high quality intermediate bonds in this type of environment. The rebounding fundamentals of lower rated bonds should outpace the negative impact of higher Treasury rates. By contrast, high grade intermediate bonds should underperform as their price performance is more closely linked to the overall direction of interest rates.

5. Broker/Dealer Reduction in Capital Commitment to Municipal Bonds will continue to reduce market liquidity.

Broker-dealer intermediaries have reduced their commitment to secondary trading and providing liquidity to municipal bond market. In 2013, the year began with commitments to munis of more than $50 billion and ended the year down over 50% – a 10- year low. The driving force behind the retrenchment is bank regulation and internal bank risk profiles. The result: the cost of transacting has risen, and the differential between institutional and retail transactions has increased.

Less liquidity also means more price volatility, which can lead to opportunity for well informed active investment strategies.

While munis have certainly had their ups and downs over the last year, they still present a good opportunity for tax-advantaged returns – for investors who choose the right securities. In fact, we expect 2014 to be as tough a year as ever when it comes to getting good outcomes in the muni market through passive exposure or by working on your own. So our overarching advice to investors in 2014 is the same as it was in 2013: find an experienced manager you trust, backed by a solid team. Smart security selection, with the help of a professional, remains the key to putting munis to work for you.

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