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When Buying Muni Bonds, Investors Should Look Beyond Their Own States.

Municipal bond returns can vary greatly from state to state. Here's why—and what investors should do about it.

Many investors look at municipal bonds and make the same mistake: They think they're all the same—an investment option with tax-exempt income features, almost zero risk and the same low yield.

Investors might be surprised to learn there can be large differences in munis, both in their coupon rates and in the returns of the mutual funds that invest in them. Currently, average returns for muni funds in some states can differ by as much as a full point, which over time can add up to a tidy sum.

Because people tend to only buy munis in their home states, taking advantage of the tax-free status that states confer on homegrown municipal issues, they often are unaware that such differences exist. But, contrary to popular belief, where the spreads are large, it can even be to an investor's advantage to forgo the homegrown option for a fund that buys issues in another state.

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