



MUNICIPAL BOND RATINGS SIMPLIFIED: Part 1

April 24, 2017

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Bond ratings try to predict if bonds will be repaid principal and interest on the promised date for your bond. Municipal bonds are like certificates of deposits, which promise interest and principal on specified dates. Bond ratings are not recommendations to buy or sell. Some investors need to keep highly rated debt, but a speculative bond rating below BBB might be suitable for other investors. They are similar to credit card scores, except that they use letter symbols instead of numeric score

“AAA” ratings indicate that the rater believes the risk of non-payment is miniscule and rare. Bonds rated three categories below at the “BBB” level indicate the company’s belief that you will still be paid in full, but that certain circumstances could result in default. Ratings below the “BBB” (BB, B, CCC, CC) indicate that unless something changes in the financial operation of an entity, there are increasing chances you will not get full repayment

Ratings being upgraded or lowered can affect the price of your bonds, but they are not the only factor. Increases in general interest rates can lower the price of the bonds, but will not affect the annual interest income you get.

bond funds use ratings to help gauge whether they should redirect investments from one category to another, but generally a bond rating is not the only thing that causes reinvestment. I use them as a quick “road map” on a particular city or state, but then proceed to do my own individual analysis to determine if the bond rating is effective. Not every bond gets rated, and that is when my own individual analysis becomes paramount. The next installment discusses the process of how bonds are rated.

About the Author

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Roland Stoever founded Stoever Glass Wealth Management, Inc., in 2014. Prior to joining Stoever Glass & Co., (broker-dealer) in 1991, Mr. Stoever was employed by KVL commodities trading Gold and Crude oil futures on the floor of the New York Mercantile Exchange. Mr. Stoever's extensive career at Stoever Glass has many roles, beginning as a retail financial consultant and evolving to running the firms proprietary trading operations. In the past 25 years of trading an array of financial products he has gained vast experience into the workings of global financial markets, which he now brings to Stoever Glass Wealth Management Inc. Mr. Stoever is a graduate of New York University's Leonard Stern School of Business.

Mr. Stoever holds his General Securities (series 7) Equity Trader (series 57) and Registered Investment Advisor (series 65) licenses.



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