



**Stoever Glass & Co**  
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## **LIVING ON FIXED INCOME AND SAFE INVESTMENTS**

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Municipal bonds have been called "the second safest investment" after U.S. Treasury bonds. The default rate for tax-exempt municipals, with \$3.7 trillion of bonds outstanding, has a default rate (meaning you didn't get your money back) of less than one-half of a percent over 20 years. Those default rates are small, even after taking into account the 2013 bankruptcy of Detroit, and the current troubles of Puerto Rico's \$70 billion of bonds in distress. But that doesn't mean that all municipal bonds are equal.

If you are looking for safe investment income, the best bonds to look for are State General Obligation Bonds (like Florida), or local school district general obligation bonds. They have the lowest default (non-payment) rates of all tax-exempt municipal bonds. The reason that local school district bonds are "cash good" is because state aid to Kindergarten-12th Grade school district bonds is the single-most important part of State budgets. State Constitutional law usually requires "fair and equal" funding for primary and secondary education (K-12). But because these bonds are viewed as safest, the yield (investment income) is lower than other "higher yielding" tax exempt bonds.

If you are worried about safety, then you want to steer away from bonds issued for hospitals, senior living communities, tobacco securitization bonds, charter schools, and "industrial development bonds" (IDBs). IDB bonds are no stronger than the private corporation that promises to pay, and defaults by private corporations are much higher than municipal bonds paid for by taxes or utility fees for essential services like electricity or water & sewer service, (which constitute virtual monopolies). The yields (income) for these bonds are higher, but the risk of not getting repaid is also higher.

## About the Author

### **RICHARD P. LARKIN, Stoever Glass & Co., Inc.**

*Richard Larkin, a recognized 40 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria. In 1998, Mr. Larkin joined Fitch Ratings as Chairman of its Public Finance Criteria Committee. He ultimately left to take leading roles in municipal hi-yield analysis at firms JB Hanauer & HJ Sims.*



*“Dick will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique,” said Roland Stoever of Stoever Glass.*



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