By: ReleaseWire - Latest Press Releases
June 26, 2015 at 10:01 AM EDT

Municipal Bonds - Protecting Income with an Opportune Investment Without a Partner

Buying municipal bonds empowers investors to retain 100% of their interest income.

Melville, NY -- (ReleaseWire) -- 06/26/2015 -- A wise man once said, "Choose your friends wisely. Not everyone has your best interest." Investors, please take note.

Savvy investors are the ones who most often choose to invest in tax-free municipal bonds. They have a very good reason for doing so—they avoid taking on a stealth partner, such as Uncle Sam or a state government, whose "best interest" is to take away a share of an investor's profit. In fact, by buying tax-free municipal bonds, investors may be able to keep 100% of their interest income.

Every time an individual receives a coupon payment form a taxable bond, earns interest from a certificate of deposit (CD) or a bank account, she or he is investing with a partner. Be it Uncle Sam or the US Government, that partner claims its partnership share of every interest payment received. Uncle Sam in particular is an astute partner. He does not claim his share at the time an investor receives interest payment. Rather, he asks for payment every year on April 15th. By demanding his share at a later date, as part of a complicated tax return, Uncle Sam makes it much harder for investors to realize the magnitude of his "participation" in their hard earned interest income.

For those who are in the highest federal tax bracket, Uncle Sam becomes a 39.6% partner of every taxable interest payment they receive. For investors living in high tax states, such as California or New York, the situation is even worse. For example, for an individual in the highest state tax bracket in California, in addition to Uncle Sam, the State of California joins the partnership by claiming 13.3% of every taxable interest payment she receives. Think about it! That investor puts up 100% of the capital to receive only 47.10% (100%-39.6%-13.3%) of the return!

Buying municipal bonds empowers investors to achieve two key strategic goals: 1) circumvent the risk of taking on unwanted partners; and, 2) secure their ability to retain 100% of their interest income. Currently, municipal bonds are trading at attractive historical levels relative to taxable bonds. Yields on 10-year municipal bonds are 105.16% of the 10-year Treasury and 20-year municipal bonds are yielding 114.39% of the equivalent Treasury. This has a very important implication for investors, as it means that despite the fact that municipal bonds' income is tax-free—consequently, their rates should be lower—their yields on maturities greater than 10 years are higher than those on treasury bonds! Of course, the latter are backed by the full faith and credit of the United States. Nevertheless, municipal bonds levels over 100% are high by historical standards.

So how can investors go about in finding the right bond? Here are 5 tips:

1) Think like a Banker! -- A bond is a loan, and the investor is the bank.
2) Time Horizon – An investor must decide when she wants the loan (bond) to end.
3) High yield is not everything – Is the extra return worth the potential loss of principal and the stress associated with it?
4) Credit Worthiness – Investors must evaluate how likely they are to get their money back
5) Tax Equivalent Yield – An investor must compare apples to apples by calculating upfront what interest rate must be received on a taxable bond to earn the equivalent tax-free yield.

No one knows where interest rates will be in the next few years. What is known instead is that, if investors buy a tax-free bond paying 4% and hold it until maturity, they will receive an attractive tax-free income. In fact, that tax equivalent yield will be 8% if the investor is in a 50% combined federal and state tax bracket. At maturity, as long as the issuer remains in good standing, the principal will be repaid in full.

About Lantern Investments, Inc.
Based in Melville, NY, Lantern Investments, Inc. is a wealth management firm that educates and guides multi-generational clients to achieve their financial goals by managing risk, growing assets and preserving wealth. The firm has offices in Westbury, NY, Chicago, IL, Houston, TX, San Francisco, CA and Hoboken, NJ. For more information call (631) 454-2000 or visit http://www.lanternwealth.com

About Keith Lanton
Keith Lanton is the President of Lantern Investments. He works with clients to develop optimal asset allocations and investment portfolios that factor in the clients risk profile and income needs. He has appeared on financial radio shows, been quoted in newspapers and industry publications and also served on numerous investment panels and forums. He can be reached at keith@lanterninvestments.com

For more information on this press release visit: http://www.releasewire.com/press-releases/release-606807.htm

Media Relations Contact

Claudio Pannunzio
President
Telephone: 203-532-5881
Email: Click to Email Claudio Pannunzio
Web: http://www.lanternwealth.com/