

June 20, 2007

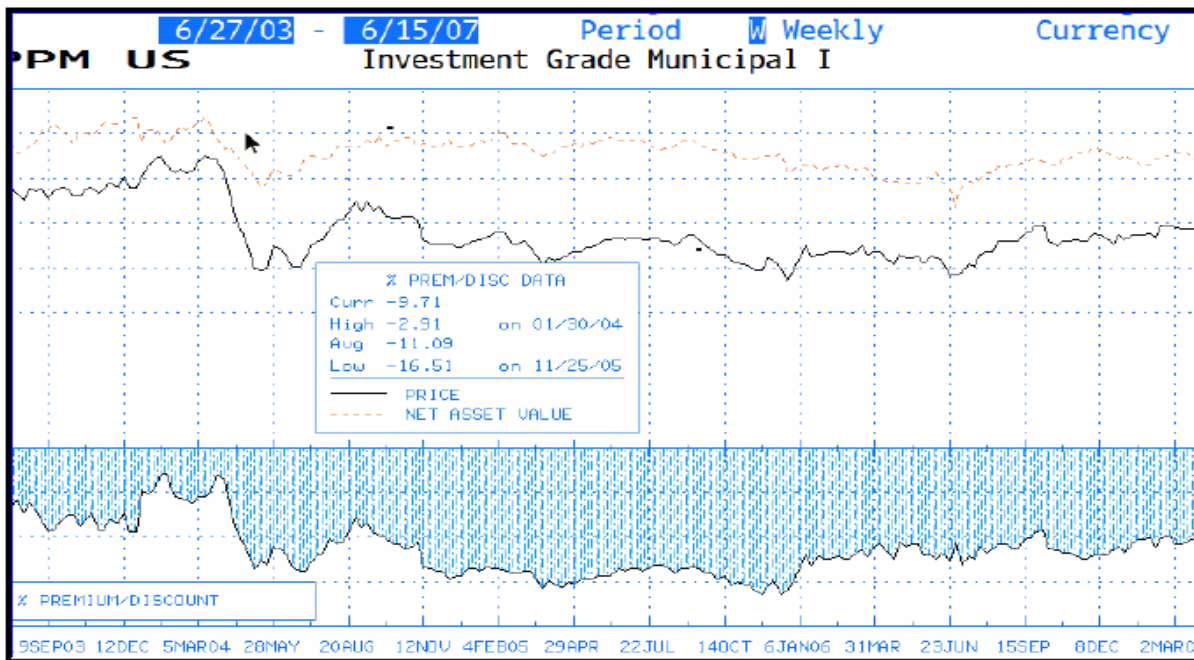
The Anatomy of a Closed End Muni Fund

Before reading this, please realize it is written WITHOUT acrimony and not meant to be derogatory in nature, but here goes. The anatomy of a closed end muni fund.....

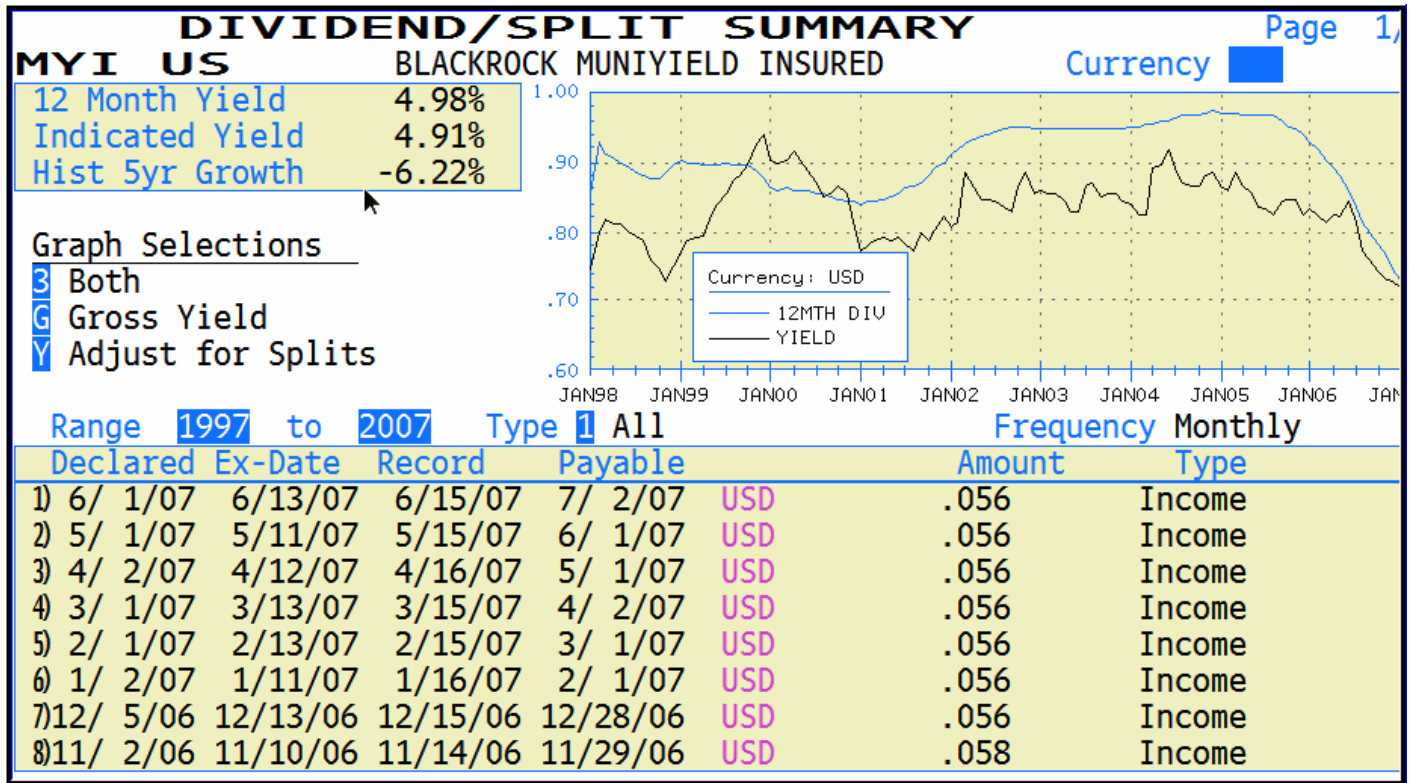
About 15 years ago, Nuveen, and others like Merrill, Blackrock and Putnam began offering “leveraged closed end muni funds”. I would like to take this opportunity to explain how and more importantly, why they are created/structured.

If you were to go out and buy a long term municipal bond right now, it would fetch about 4.85 - 4.90%. If you were to buy a closed end levered muni fund, you get about, well...4.90%. So why would anyone buy something that is essentially a municipal bond portfolio on margin? After all, the way these deals are structured is described in the following. They “borrow short and lend long”. In other words, they fund their leverage via money market (short term) floating rate preferred shares that are actually backed by the bonds in the portfolio. So let's say you borrow at 3.5% and lend at 5% and, voila, you capture the spread!

Enter the brokerage firms. When these funds are brought to market, they are typically offered at \$15 per share, but come with a hefty sales charge and fee of 7%! Yep, you get \$13.95 worth of bonds for \$15. A bargain, I think not? But in the new deflationary days of trading bonds or stocks, it amounts to what we might call a “7 point rocket”. Pretty appealing for the brokerage community! Eventually, the market smells this out and the securities often settle at a DISCOUNT TO NET ASSET VALUE, sometimes as much as 15%. This takes the \$15 to \$13.95 to \$11.85. Take a look at this chart of PPM and you can see what I mean by the discount to NAV.



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Yep, that's right sports fans, a 5 year compounded growth rate of MINUS 6.22%.

I rest my case.

Bennet Sedacca

President

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