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LEARN HOW TO BOND WITH YOUR PORTFOLIO

"I have 40% of my portfolio invested in fire. I think it's the technology of the future."

Leigh Baldwin & Co. Investment Brokerage Newsletter

Third Quarter, 2005

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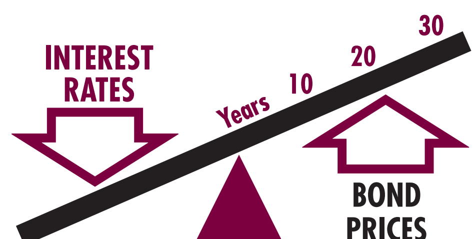
Bonding With Your Portfolio

Nearly all investors realize the importance of diversification to the investment process. Perhaps fewer are familiar with the importance of **asset allocation**. That is, dividing your portfolio into the appropriate mix of stocks, bonds, and cash. Although many of us also include real estate (homes, vacation homes, and rental properties), or ownership in a business in this mix, the most widely held asset classes are the three mentioned above.

In the past, the rising stock market has impressed most of us with the importance of holding a percentage of stocks, especially in portfolios that are funding our retirement. We also see the logic of having a certain amount of cash for emergencies and larger scheduled expenditures. But, what about bonds? How are they affected and what are the risks associated with them? There is **interest rate risk** associated with investing in a bond or bond mutual fund. This interest rate risk is referred to as an inverse relationship, which means that as an interest rates rise, typically, prices of existing funds with lower interest rates will fall, and vice versa.

Bonds may have a place in an investment portfolio. Some market strategists vary their recommendations from 50% bonds-for the most conservative-to 35% for a more aggressive investor. Your **risk tolerance** is a good guideline for deciding the amount of bonds you want in your portfolio. Some good reasons to own bonds are: they may generate more income than stocks or cash, and sometimes the income is free from state or federal taxes. Bonds can be timed to mature when money is needed for a specific purpose-college tuition, for example:

When buying corporate bonds, try sticking to higher-grade issues, bonds rated A to AAA. Bonds below these grades, while sporting higher



Bonding With Your Portfolio *continued from page 1.*

interest coupons, are riskier. Seek maturities in the intermediate range, five to ten years. This is generally considered the “sweet spot” on the yield curve. If you have enough money, consider buying several different maturities in this range so that they will not all come due at the same time. Plan on holding the bonds to maturity, so selling a small bond lot will not penalize you.

Standard & Poors		Moody’s Investors Service
AAA	Best quality	*Aaa*
AA	High quality	*Aa*
A	Good quality	*A*
BBB	Medium quality	*Baa*
BB B	Speculative	*Ba*
CCC CC	Highly speculative	*B*
C	No interest is being paid or may already be in default	*Caa*
D	Lowest rating	*C*

Municipal bonds, which generate income that is free from state and federal taxes, are generally a good investment for those in high tax brackets, especially residents of high tax states such as California and New York. Because of their popularity, there is generally an ongoing schedule of municipal offerings throughout the year. Municipal bonds are also rated, and it is safer to stick with the higher rated bonds.

Build a Ladder

A savvy approach to bond investing is to spread your risk over a series of different maturities. Set up a ladder—in essence, a series of bonds with a range of maturities.

Here is how it works. If you were to buy equal amounts of Treasury or corporate bonds due to mature in one year, three years, five years, seven years and nine years, that portfolio would have an average maturity of five years. The next year, when the first bonds mature, you would reset the ladder by allocating the money into a new 10-year bond. Your portfolio would then have an average maturity of 6 years.

Two years later, when the 3-year bonds mature, you would buy more 10-year bonds. You would continue to add to the ladder whenever a bond matures, which always maintains the average maturity in the five to six-year range.

The advantage is that you do not have to worry about interest rates, especially if the ladder that you construct has bonds coming due every few years. If rates rise soon after you have bought this year’s bonds, you can take comfort in the fact that soon you will have money coming available to take advantage of the change. The beauty of laddering is that if rates happen to decline after you buy, you have managed to secure the higher rate for that portion of your portfolio. Either way, you are improving your bottom line. ■

For a current listing of recommended corporate, municipal and U.S. Government bonds, contact your Leigh Baldwin & Company investment advisor.

Certificates of Deposits:
Safety, Predicable Income and Preservation of Capital

There's nothing wrong with cash. It gives you time to contemplate your next move.

When choosing investments, many individuals look for predictable income, safety and preservation of capital. Investments with these qualities are often referred to as fixed income investments. They are an important part of a properly diversified investment portfolio. Some of the most popular fixed income investments are Certificates of Deposit, commonly referred to as 'CDs.'

CDs are issued by banks and savings and loan associations and earn a specific rate of interest for a given period of time. CDs may be purchased from these financial institutions or from your Registered Representative.

What are the benefits of buying Certificates of Deposits?

☑ ***Safety***
CDs are insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings & Loan Insurance Corporation (FSLIC.) Your CDs are insured for up to $100,000 per institution. The CDs you purchase from *Leigh Baldwin & Company* are also issued by banks and savings and loans and therefore carry the same insurance.

☑ ***Flexibility***
CDs are available in maturities ranging from three months to ten years. When interest rates are favorable, a CD enables an investor to lock-in a rate. Because of their liquidity, the shorter term CDs may make sense for investors who know when their cash will be needed.

☑ ***Yield***
Generally, CDs offer a higher yield than U.S. Treasuries of similar maturity. Like Treasuries, the interest on CDs of one year or less is paid at maturity. Interest is paid semi-annually on CDs of longer maturity.

☑ ***No Commissions***
There are no commissions charged by *Leigh Baldwin & Company* when you purchase a CD, and our CD rates are very competitive.

☑ ***Liquidity***
When a CD is purchased directly from a bank or savings and loan, there is generally a substantial penalty if you liquidate your investment prior to its maturity date. If your CD is purchased through *Leigh Baldwin & Company*, there is no early withdrawal penalty since we are able to sell your investment in the secondary market. However, depending on the current interest rate environment, the price you receive may be more or less than your cost.

☑***Convenience***
Interest payments and the principal from your CD may be automatically credited to your account at *Leigh Baldwin & Company*. When your CD matures, it can be rolled over into another CD or the funds can be reinvested into other investments.

For more information on CDs or to determine if they have an place in your investment portfolio, please contact your *Leigh Baldwin & Company* investment advisor. ■

"Breakfast on Wall Street"
Listen to Leigh Baldwin and Ken Iselmoe each week as they host "Breakfast on Wall Street" each Saturday morning at 11 a.m. on WHEN 620 AM or on Sunday morning on WKXZ 93.9 FM at 8 a.m. They will take a look at the week on Wall Street in their own inimitable style.