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## Financial Advisers on Munis: Don't Panic

By DAISY MAXEY

Like many financial advisers, Stan Richelson is fielding calls these days from clients wanting reassurance about their holdings in the municipal-bond market.

His response: "Stop worrying; get over it." He then explains to them how and why, as he puts it, "the world is not coming to an end."

While many advisers say their clients aren't panicking, headlines about potential municipal defaults and even bankruptcies have led to steady outflows from municipal bonds in recent months. Investors pulled \$1.9 billion out of municipal-bond funds in the week ended Jan. 26, the 11th consecutive week that money has left the funds, according to Thomson Reuters Corp. unit Lipper FMI.

Mr. Richelson, a fee-only adviser, oversees about \$167 million in bonds at Scarsdale Investment Group in Blue Bell, Pa., for families and high-net-worth investors. At least two-thirds of that total is in municipal bonds. Of the 50 families he works with, he has heard from about 10 or 15.

His firm deals only in high-quality munis, he says, which present little risk: general-obligation bonds of triple-A-rated cities and counties along with essential-service bonds. His firm is steering clear of New York, California and Illinois.

"We only buy the top of the food chain," he says. "Pennsylvania, North Carolina, Virginia—these states are not going out of business."

David Bendix, a certified financial planner with Bendix Financial Group in Garden City, N.Y., oversees about \$100 million, 15% to 20% of that in a combination of municipal bonds and muni-bond funds. Bearish comments on munis by Wall Street bank analyst [Meredith Whitney](#) last month spurred "a bunch of calls" from his clients, he says.

"Nobody is panicking," Mr. Bendix says. "My feeling is municipalities tend not to just go out of business like a corporation, especially with some of the general-obligation bonds, when you have the full taxing authority of the states, you have some protection there."

If anything, Mr. Bendix says, the overblown concerns have created buying opportunities.

There are more inquiries into muni-bond funds than there were three months ago, as "opposed to buying an individual bond and wondering whether the rating is good," he says. He is also looking to shorter-term municipals "to take away some of the interest-rate risk."

Anthony Parish, a fixed-income product specialist at DWS Investments, says he is starting to hear more advisers talk about buying opportunities in the muni marketplace. "There was indiscriminate selling in the months of November and December," Mr. Parish says.

Now, "more are realizing that the muni markets are likely oversold." That isn't to say that there won't be more volatility, however, he says.

That said, "I believe more and more advisers are saying, 'I know there are problems out there in municipal budgets, but it looks like the problems are getting better from a fundamental perspective than getting worse, and for the attractive yields I'm seeing, I'm OK to accept those risks within a diversified portfolio,'" he says.

William Van Keulen, a fee-only planner and adviser with Carnick & Co. in Colorado Springs, Colo., oversees \$200 million in assets, half of it in munis. Evaluating municipal bonds is complex and comes down to the underlying revenue streams, he says. "We're not taking about a homogeneous group of issues out there."

Mr. Van Keulen's clients already understand that he won't look at a municipal issue unless he can understand the associated revenue streams, he says. Still, some clients are asking what he is doing in light of recent reports.

"We've heightened our attention to the portfolios to make sure that the debt coverage is within a reasonable parameter given certain covenants in the bonds. We're spending more time now than ever on that," he says. In addition, he is selling off issues of certain cities, including Kansas City, Mo., and some cities in Florida.

Mr. Van Keulen sticks with essential-service bonds and those issued by states with reasonable budgets and in areas of the country that aren't experiencing high foreclosure rates and where revenue streams haven't dropped off by much. "If they stop flushing their toilets and paying their water bills, then we have a problem," he says.

Meanwhile, despite Mr. Richelson's reassurances, one client at Scarsdale Investment Group did sell his muni bonds more than a year ago, when signs of municipal distress were first garnering headlines. "He's now lost 5% tax-free on everything we sold," Mr. Bendix says. "He's probably feeling much better because of all the negative talk, but he's losing all this money."

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