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## Seasonal Musings

December 2007

### Musings In This Issue

**"Cheap" Squared**

**In Case You Don't Have  
Enough to Think About  
Before Year-End**

**Happy Holidays to One  
and All**

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Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning LLC (FSFP). In this issue, we'll be discussing closed-end Municipal bond funds and a tax law change for 2008. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

### "Cheap" Squared

#### The Current State of Closed-End Muni Bond Funds

As we mentioned in last month's issue, Municipal bonds have become very attractive relative to high- quality taxable bonds. At the same time, and for some of the same reasons, closed-end funds as a group have also become much cheaper since the summer.

Just to review, closed-end funds are different from garden-variety mutual funds in 3 major ways:

1. there are a limited number of shares outstanding of any closed- end issue,
2. closed-end fund shares trade on stock exchanges, and
3. they can and usually do trade at levels different from their "net asset values" (NAVs).

Because most closed-end funds have fairly small issue

sizes, this market tends to be somewhat illiquid and dominated by individual investors. In turn, the discounts (or sometimes the premia) at which closed- end funds trade relative to their NAVs can swing fairly wildly and are particularly susceptible to extremes in investor sentiment. So when sentiment about a particular asset class sours, or when risk tolerance in general falls, discounts to NAVs can widen dramatically.

This is exactly what we've experienced since the onset of the credit crunch this summer. The discounts at which the closed-end fund universe is trading have widened significantly. According to Lipper, the fund research company, the median discount of closed- end funds is now in excess of 10%, the widest in 7 years. In other words, this market sector is trading at less than 90 cents on the dollar.

There are many closed-end funds that focus on Municipal bonds. Investors should perform careful due diligence because many of these issues use leverage to boost returns, and high management expenses can be a concern. That being said, being able to invest in an already cheap asset class at a 10%+ discount to its intrinsic value deserves attention. To discuss the role closed-end Muni bond funds might play in your portfolio, please feel free to drop us a line.

### **In Case You Don't Have Enough to Think About Before Year-End**

#### **The "Kiddie" Tax Changes Jan. 1**

For those of you with dependent college-age kids selling appreciated investments to help pay for school, keep in mind the "kiddie" tax rules are changing again in 2008. Next year the "kiddie" tax will be extended to include dependent college kids aged 19 to 24.

The "kiddie" tax dictates that any unearned income beyond \$1700 generated by the child is taxed at the parents' rate. Consequently, if you do happen to have college kids over age 18, they should consider selling their stocks and mutual funds by the end of this year. As usual, check with your tax professional for details.

### **Happy Holidays to One and All**

**Here's hoping all your investment returns in the New Year are**



**thiiiiis  
big !!!**

P.S. Next year, we'll be scaling back Seasonal Musings to a bimonthly format starting in February.

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Five Seasons Financial Planning LLC is a Fee-Only financial planning and investment advisory firm registered with the state of Utah. Five Seasons offers financial planning services on an hourly basis, as well as discretionary investment management. To view past issues of "Seasonal Musings", click [here](#).

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

**Best wishes,**

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