

FIXED INCOME EVALUATIONS

JANNEY FIXED INCOME

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Janney retains a third party evaluation service to supply the prices used to evaluate most fixed income securities on our client statements and on-line access accounts. Although these prices are generally representative of market values, valuation of bonds, particularly municipal bonds and mortgage backed securities, is not always precisely the price at which a bond can be purchased or sold at any given time. This is particularly true during volatile markets.

Valuing bonds is not an exact science. With millions of individual CUSIP descriptions, many bonds trade only occasionally or rarely. In recent years MSRB¹ and TRACE² price reporting have improved price transparency of municipal and corporate bonds. This trade price information is available at www.investinginbonds.com. However, since the majority of bond issues trade infrequently this trade price information does not always help the evaluation process.

The pricing services employ a computer based matrix model to provide bond valuations to Janney Montgomery Scott LLC and other financial services companies. In theory two bonds with identical or near identical features—coupon, maturity, rating, redemption features, state, industry, type (revenue, GO, healthcare), senior, subordinate etc. should be valued at about the same level. This is the basis of computerized matrix pricing. Starting with basic scales (a listing of yields for each maturity of a particular rating category) and/or prices for institutional size trades (\$1 million and up) the matrix incorporates adjustments—for example a 5% coupon may warrant a different yield than a 4% coupon of the same maturity. Imagine the complexity of a matrix that needs to factor in each of the 10 or more differing features of a specific bond.

Theory only goes so far, and there are many nuances, including regional based supply/demand issues. To help address this, the third party evaluation companies used by Janney employ a professional staff in the pricing department. These folks communicate daily with traders around the country and incorporate real trade information, when available, into the mix. They are also constantly evaluating and tweaking the various matrices.

Despite the process noted above, the nature of the wide variation in the millions of outstanding fixed income securities makes “informational pricing” an inexact science. It is important to understand that the bond values included in regular client statements or viewed by our on-line access clients are meant to approximate market value. The actual bid or offer for a bond at any given time may differ from this evaluation.

Your Financial Consultant will obtain a “live” bid for fixed income holdings upon request.

1. MSRB—Municipal Securities Rulemaking Board—prices and other information for the vast majority of municipal bond transactions are reported to this regulatory organization within 15 minutes of transaction.

2. TRACE—Trade Reporting and Compliance Engine of FINRA—Financial Industry Regulatory Authority. Prices and other information for the vast majority of corporate bond transactions are reported to this regulatory organization within 15 minutes of transaction.