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R **RIEGER**
B **REPORT**

Municipal Bond ETF Model Portfolio Q4 2019 Rebalance

September 19, 2019

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Municipal Bond ETF Model Portfolio Rebalance for Q4 2019

	iShares Short-Term National (SUB)	VanEck Vectors Short High-Yield Municipal (SHYD)	Vanguard National Municipal (VTEB)	VanEck Vectors High-Yield Municipal (HYD)	Combined Weighted Averages
SEC 30 Day Yield	1.13% ¹ (TEY at 37% = 1.79%)	2.73% (TEY at 37% = 4.33%)	1.62% ¹ (TEY at 37% = 2.57%)	3.37% (TEY at 37% = 5.37%)	2.82% (TEY at 37% = 4.13%)
Duration	2.1	4.4	5.4 ²	5.46 ¹	5.07
Mgt. Fee	7bps	35bps	8bps	35bps	27bps
Allocation	0% (No change from Q3 2019)	35% (Up from 30% Q3 2019)	30% (Down from 40% Q3 2019)	35% (Up from 30% Q3 2019)	100%
Rationale	Less volatile, principal protection like allocation, stable anchor but prices are high and yields are low.	Take advantage of short term higher yields built into market... i.e. Illinois	Low cost, efficient beta exposure to the IG muni market	Muni HY market is complex. Priced into market are tobacco bonds, Illinois and Puerto Rico	

Sources: [VanEck Vector Funds](#), [iShares by BlackRock](#), and [The Vanguard Group](#). Table is provided for illustrative purposes only. Past performance is not a guarantee of future results. TEY = Taxable Equivalent Yield calculated at an assumed 37% tax rate. Data as of 9/18/2019 unless noted: ¹9/17/2019, ²7/31/2019.

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Rebalancing objective: Generate incremental yield over market “beta” while maintaining duration risk exposure.

- Maintaining stance on zero allocation to overpriced short term investment grade municipal bond market by as we enter Q4 2019.
- Reducing exposure to investment grade munis in general by dropping allocation in VTEB down to 30% from 40% in Q3 2019.
- Maintaining exposure in SHYD for short term high yield municipal at 35% for Q4 2019 taking advantage of incremental yields.
- Increasing exposure in HYD for high yield municipal bonds from 25% in Q3 2019 to 35% for Q4 2019 extending both duration and credit risk in return for incrementally higher yields.
- Staying as liquid as possible by using larger ETFs and that have options available on the ETF where possible and staying efficient by keeping management fees as low as possible.

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Notes:

- Taxable Equivalent Yield = Tax Exempt Yield / (1 – Federal Tax Rate)
- Taxable Equivalent Yield calculation is not perfect: for example, the municipal high yield sector has exposure to bonds subject to AMT and that is not included in the calculation.
- 2019 tax brackets, however not all tax brackets are represented herein
- End of day yields are used

Analyst Disclosure:

- JR Rieger and or the Rieger Report LLC has not received compensation either directly or indirectly from the sponsor(s) of the ETF(s) included in this report.
- At the time of this writing, JR Rieger does not own the ETF(s) cited in this report.

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