Bond Yields in February 1966

This date was picked because prime long new corporate bonds early in the month came to market to yield as much as 5% for the first time since 1960, and this is a good round number. Simultaneously, prime long municipals were selling to yield 3.60%. (In July '66, these yields are 5.50% and 3.85%, respectively.)

The following table shows the net after tax yield of these prime corporate bonds on that date to all principal investor groups. All those groups above the double rule probably preferred municipals on that date, and all those within and below the double rule probably preferred the corporate bonds. The two markets equated at the 28% (July 30%) bracket where both would give the same net yield *if* tax rates, or individual tax brackets, never changed (a big *if*).

TABLE I

Net After Tax Yield of Prime New Corporate Bonds and Municipal Bonds to Various Investor Groups in February 1966

	Gross Yield of Corporates	Tax Bracket	Net Yield of Corporates	Net Yield of Municipals
Top Bracket Private Investors .	5.00%	70%	1.50%	3.60%
Corporate Bracket:	5.00	48	2.60	3.60
Com'l. Banks				
Fire & Casualty Ins. Co.				
Business Corporations				
Medium Bracket Investors ...	5.00	40	3.00	3.60
Low Bracket Priv. Investors ..	5.00	28	3.60	3.60
Low Bracket	5.00	20	4.00	3.60
Many Life Ins. Cos.				
Many Savings Institutions ..				
Many Small Private Investors				
Non-Taxpayers	5.00	0	5.00	3.60
Pension Funds				
Public Retirement Funds ..				
Foundations				
Endowment Funds				
Political Agencies				

Municipal Yield as a % of Corporate Yield 72% (July, 70%)
Municipal Yield Equated to Corporate Yield at the 28% bracket (July, 30%)