

ments the differential actually became negative in 1957, 1959, and currently when money was very tight; a negative curve meant that the shorts actually yielded more than the longs. The municipal curve, on the other hand, until very recently, was always positive. The chart also shows that the ups and downs of these two yield curves, i.e., municipals and Governments, have been closely synchronized most of the time, but that the municipal differential between longest and shortest has always been substantially larger than the Government differential net after tax. Evidently at all times and even in periods of intensive money market pressures, there has been a greater investor preference for shorter maturities in the municipal market than has been the case in the Government market.

These tables suggest that the analysis of long prime municipal yield trends contained in the first part of this study should in general terms also be applicable to shorter maturity municipals with this qualification: shorter maturity yields should fluctuate with long maturity yields, but should cover a wider range. This means that if yields rise further shorts will yield more than longs and if and when the present intense pressures on the money market relax and long prime municipal yields decline, shorter prime municipal yields will decline even more to levels far below long yields.

This history of the yield curve provides the investor with important guidance for his maturity selection: the best time to buy the long maturities is when the yield curve is flattest, i.e., when longs yield very little more than shorts (or even yield less than shorts). This pattern is typical of high yield low priced markets. The worst time to buy long maturities is when they yield far more than shorts; this pattern is typical of low yield high priced markets.