Bond Educational Compliance Letter

Acct: ______________________

As part of your review, it has been determined that you may, on occasion, be using Bonds to be part of your portfolio. We are reaching out to make sure you are aware of all that this strategy encompasses. Below is a chart where bonds fall in the ladder of risk and reward, and the definitions to it:

CREDIT RATINGS Moody's and Standard & Poor	
INVESTMENT GRADE	
Aaa / AAA	Highest possible rating – principal and interest payments considered very secure
Aa1 / AA+ **Aa2 / AA** **Aa3 / AA-**	High quality – differs from the highest rating only in the degree of protection provided bondholders
A1 / A+ **A2 / A** **A3 / A-**	Good ability to pay principal and interest although more susceptible to adverse effects due to changing conditions
Baa1 / BBB+ **Baa2 / BBB** **Baa3 / BBB-**	Adequate ability to make principal and interest payments – adverse changes are more likely to affect the ability to service debt
FALLING ANGELS **RISING STARS**	
SPECULATIVE GRADE	
Ba1 / BB+	
Ba2 / BB	Faces ongoing uncertainties or exposures to adverse business
Ba3 / BB-	Financial or economic conditions
B1 / B+	
B2 / B	Greater vulnerability to default but currently meeting
B3 / B-	Debt service
Caa / CCC	
Ca / CC	Currently identifiable risk of default (for Moody's)
C / C	May already be in default
Da / D	Default
WR	Write Off

Strategies used by bondholders are generally for income purposes, although it can also offer an alternative way to partake in profits than the company's stock counterparts. For this reason, we will often look for opportunities at the bottom of the Investment Grade section of the table above, called Fallen Angels, and amidst the Speculative Grade section coined Rising Stars.

Due to the volatile characteristics and nature of these categories, much monitoring is required, and thus the expense is slightly higher, ranging from 3.75% for purchases and 2% for sales. Most bondholders will hold these bonds until maturity ranging from 3-5 years, and thus the expense equates to less than 1% annually. As you will be aware, this fee has not been increased in over 20 years.

FALLING ANGLES AND RISING STARS COMPARISON STRATEGY

Rising Stars - High-yield bonds, also referred to as *junk bonds*, can be divided into two specific classifications. Bonds that are described as *fallen angels* are simply those that at one time in the past were considered to be investment grade and are now categorized as "junk" bonds due to a reduction in the issuer's *credit rating*. On the other hand, rising stars are bonds that were considered speculation grade when issued but have since improved their financials, reducing the risk of default. These bonds are now closer to the security of an investment-grade bond. While rising stars are junk bonds, there is a good chance that they will not always remain as junk bonds. A typical rising star is a new business or company with very short or no record of debt repayment from which to assess them high enough for investment grade. These corporations are performing strongly, thus are "rising" and, therefore, may become *investment grade* as soon as the assets required to have the right ratio are achieved. In general, a rising star is a superior performing bond considered a "junk" or speculation grade investment. *Information on Rising Stars and Fallen Angels was derived from Investopedia.*

By signing below, you hereby acknowledge that you have read, understand, and agree to this information.

_______________________________________ Signature & Date

_______________________________________ Joint Account Holder Signature & Date

Terri Startare
Terri Startare
Licensed Principal, Financial Consultant
E1 Asset Management, Inc.
tstartare@e1am.com | (724) 746-7333

Ron Itin
Ron Itin
General Principal
E1 Asset Management, Inc.
accountservice@e1am.com | (212) 425-2670