

Yields in Munis

The Spirit of America High Yield Tax-Free Bond Fund (SOAMX) seeks higher returns than the typical returns of government bonds. The Fund has bonds from 23 states and one territory, Puerto Rico. SOAMX has bonds that cover various sectors throughout the entire spectrum of municipal bonds.

What funds are in the Spirit family of funds?

We started a family of mutual funds about ten years ago and originally introduced Spirit of America Realty Investment Trust Fund. This was followed by our Value fund about five years ago. In March 2008 we introduced the Spirit of America High Yield Tax Free Bond Fund. It was created to fit into the overall investment philosophy of David Lerner Associates and was designed to yield higher returns than the typical government bonds. Many of the bonds we hold are recognizable names like Metropolitan Transport Authority bonds, New York City General Obligations, New York City Bonds and bonds from agencies that you interact with or use their services on a daily basis.

Even though the fund has a mandate to buy below investment grade bonds, we have up to this point purchased investment grade or better. We consider ourselves a high yielding conservative fund and we do not use leverage to make any purchases.

What kind of credit quality are you looking at?

We invest in bonds of investment grade or better even though we do have a mandate that allows us to invest in lower grade bonds. To give you an idea of the structure of the fund, currently 51% of the bonds in the fund are rated A or better, and 99.39% of the fund is investment grade or better. Our fund invests only in municipal bonds.

“We do business the old fashioned way. We look at each credit and check whether we believe it has good value in today’s market, offers our investors a good yield, and that we are comfortable with the risk-to-yield ratio. If so, then it is something that we buy.”

To earn higher yield, we have some bonds in the hospital sector and some tobacco revenue bonds and some of those names have given us added yield. Most New York state municipal bonds are currently yielding between 4.90% and 5.15% and currently our fund is yielding about 6.9%.

What kind of bonds do you select?

Our fund has bonds from 23 states and one territory, Puerto Rico. We also have some charter schools, hospitals, and tobacco bonds; some of those names give us some of the extra yield. We cover all sectors and wide spectrum of municipal bonds. For example, we have bonds from Wisconsin Health & Education department, North Texas Thruway Authority, and some Puerto Rico government bonds.

What is your research process?

Ray Mathis, our analyst does the majority of the research. He will look at the strength of the underlying entity, their outstanding debt, and their inflows.

We dig deeply and diligently to make sure it’s a name we are comfortable with. We also look at the rating agencies; although, we don’t rely on them. We have tried to stay investment grade or better even though our mandate allows us to go lower.

We let Ray analyze the issuer. It is like a two pronged approach. We will see an issue that we think might be attractive and pass it on to our analyst. Our analyst will make sure it’s a credit that he is comfortable with and issued by an agency that is approved. Then we’ll make sure that we are comfortable with the level, which offers us a good balance between risk and yield, and is something that we think is beneficial to the fund.



WILLIAM MASON is Managing Director of Spirit of America and is responsible for the oversight of the all Spirit of America products. In addition he is the portfolio manager of both the Spirit of America High Yield Fund and Spirit of America Value Fund.

His career began in back office operations in 1980 at Merrill Lynch where he stayed until 1983. Mr. Mason then moved to Morgan Stanley where he was Manager of Trading Operations from 1983 until 1985 when he became an Institutional Trader. In 1988 he left Morgan Stanley and started working at David Lerner Associates, Inc. where he became Head of the Trading Department. Mason has obtained his General Securities Principal (Series 24), Municipal Securities Principal (Series 53), General Securities Representative (Series 7) and Uniform Securities Agent State Law Examination (Series 63) licenses.

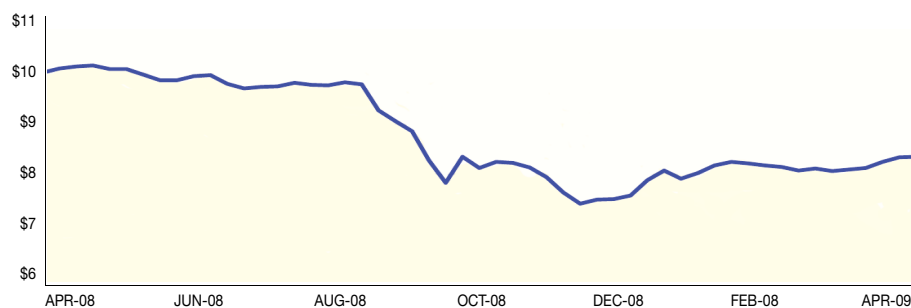


RAYMOND A. MATHIS is Portfolio Manager of the Spirit of America Real Estate Fund. Mathis is also Portfolio Advisor of the Spirit of America Value Fund. He joined David Lerner Associates on November 5, 2007.

Prior to joining the Adviser, Mathis was a securities analyst with Standard & Poor’s from 2001 through 2007, covering the Consumer Cyclical and Consumer Staples sectors in addition to Real Estate Investment Trusts. After receiving his Masters of Business Administration from the University of New Orleans in 1998, Mathis worked as a Project Controller for Starwood Hotels & Resorts Worldwide’s Design and Construction group.

Performance - Price History N.A.V.

Spirit of America High Yield T/F Bond (SOAMX)



When you are evaluating a bond, what are one or two fundamental metrics that you look for?

One of the most important things that we look for is the longevity of the entity issuing the bond. We want to make sure the issuer is going to payback its principal and interest at the time it agreed to. We don't go into high yielding names we are concerned about. We try to stay relatively conservative although that conservative position is inside the definition of high yield bonds.

How large is your universe of bonds?

Municipal bonds are a little different from stocks. There are a large number of issuers and growing number of issues. Because we do have bonds that are AAA rated, AA rated, and we are willing to buy all bonds of all states, our universe is very broad and intricate.

What things generally give you discomfort regarding the credit and the yield?

Any entity we think can fail on their obligations or we think has a borderline default potential gives us concerns. There is an entire universe of bonds which is below investment grade and this is an area that we have steered away from. Airport bonds are only one example of this.

The municipal bond universe is vast and requires a specific knowledge of the county, region, or the local economy. How do you stay on top of various economic currents?

We stay focused on bonds that meet our investment criteria and we are very selective. We also tailor this fund to our tri-state area investor base that includes New York, New Jersey and Connecticut residents. For example, currently, over 26% of this fund is tax exempt to

investors in New York, over 13% is tax exempt in Connecticut, and over 16% is tax exempt to investors in New Jersey.

What is tax-free and how does it work?

Investors in funds have 100% exemption from federal taxes on interest received. If you are a New York resident and you buy a New York municipal bond, you don't pay state and federal taxes. If you are a New York resident and you buy bonds outside of New York State, you don't pay federal tax on it but you would pay a state tax. In this particular case, it is 100% free of federal taxes but 26.59% of that portfolio we offer to our New York client is also exempt from New York state taxes. That is an added bonus in investing in this fund compared to any municipal bond fund that invests in many states. We tailor this specifically for our client base in New York, New Jersey and Connecticut. Even though it is not a primary consideration of the fund, it is an important feature of this fund.

How do you select the holdings in your fund?

Municipal bonds are a little different from stocks. For example, in an equity fund, we can say we have 70 positions. The Municipal bond universe is much broader and we hold more positions.

We hold approximately 100 different positions, but that's a constantly growing number. As the fund gets bigger, the number of positions will expand dramatically. You can add to a name that you have. However, everyday there are new issues coming to market for the first time. We will get involved with those but this is going to be a constantly growing universe as opposed to an equity fund, which is limited to a fixed amount of holdings.

Do you hold bonds to maturity? Are they long- or short-term bonds?

Most of the bonds are long-term bonds. Currently our average maturity is 25 years and three months, but we also have bonds of shorter maturity. We have bonds maturing in 2015 to 2022 and all the way out to the longer end of the curve. We cover the entire maturity range but the emphasis is on the longer end of the curve.

Do you try to take advantage of the yield curve in building your portfolio?

The majority of our purchases are on the longer end of the yield curve. If we are dealing with an inverted yield curve we would probably take advantage of the shorter maturities. Currently we are comfortable with the way the yield curve is. We are comfortable with picking up longer term bonds. I think our current duration is probably slightly under 10 years and our average maturities are about 25.3 years.

Do you hold any macro-economic views? Managing a bond fund, even though it focuses on municipal bonds, does require some kind of macro-economic views.

We certainly look at different areas of the country and do keep an eye on macro-economic developments. We are aware of certain financial pressures building in Puerto Rico and in California. We also avoid certain segments in the bond market. Currently, we are not comfortable with airport bonds and we have no airport bonds in our portfolio.

And, we certainly try to stay diversified. Currently 10.8% of our portfolio is in tobacco revenue bonds, 20% is in hospitals bonds, toll road bonds are over 5%, General Obligations are near 5%, charter schools bonds are over 5%. We have about 3% in state GOs and about 2.3% in higher education related bonds.

How do you assess the credit quality and what are the few things that you hone into when you assess municipal bonds?

We take a 'hands on' approach to this and conduct all the analysis in-house. We don't just rely on the rating agencies. We review all the basic metrics like days of cash on hand, interest coverage ratio, debt service ratio, and quick ratio and the current ratio.

We build up our models to forecast where we think things are going. It is a little bit tricky

with municipal bonds because they are not required to report data regularly. And the available data is often historic in nature but we try to get a feel for what's going on in the business by looking at the operating metrics and trends in revenues. We'll look for red flags or for unusual qualitative items.

Sometimes we'll see that an issuer is doing well operationally but it will have a huge loss in non-operating items due to some financial products that they purchased or some bad investments that they made.

We'll often take it a step further and try to set up a call with the management. In certain cases where we were looking at hospital bonds, their credit metrics looks good but we would notice that the financial statement said, for example, revenues weren't going up much. We would ask how new projects are going. If we got a response they are nearing completion of the project and expect it be in full service in the next quarter and that should add x percent to our revenues, we will look at it favorably. If the project is done, it is already contributing maximum to revenues and the credit ratios are good but their operating metrics are trending negatively even though the project is off the ground, we'll look at that negatively.

What is the default rate in this industry?

Municipal bonds are probably one of the most conservative bonds behind U.S. Treasuries. We are dealing with a security that overall has a great degree of safety and is considered highly secure even though you might see volatility in yields. Yields will move up and down with the market, but the underlying securities have a long history of safety. The default rate is below 1%.

Do you, as a part of your research process, regularly talk to the management?

We have spoken with the management of several of the issuers but we don't have regular quarterly conference calls.

Another part of the process when we are analyzing the bonds is to look at the security. Many of the bonds, for example if they are charter schools, will be secured. The security will be a mortgage on the campus of the school. It's a similar case with hospital bonds and many of the new buildings or facilities. We also look at the security part of the bonds and that gives a great degree of comfort when the bonds are secured.

What are your risk controls?

Municipal bonds in general have a high degree of safety. I'd say the biggest risk when it comes to the portfolio is yield movement, meaning whether or not the market goes up or down. If the bond market goes down, then the yield of the fund is going to go up and if the market goes up then the yield is going to go down. We don't leverage and we don't hedge.

We do business the old fashioned way. We look at each credit and check whether we believe it has good value in today's market, offers our investors a good yield, and that we are comfortable with the risk-to-yield ratio. If so, then it is something that we buy.


This is a great time to be investing in municipal bonds in general and in our fund specifically. Municipal bonds have historically traded at about 80% of the U.S. Treasuries. The 30-year Treasury bond is yielding just above 4% and our fund is close to 7%. So you are getting extra 275 basis points that are tax free.

Currently, you have something that's extremely unusual where municipals are trading cheaper than treasuries. If you are in the 36% tax bracket, that gives you approximately 11% taxable equivalent yield.

What is the distribution of holdings in the fund?

99.4% of the fund holdings are investment grade or better. Even though it is a high yield fund, over 14% of the fund is invested in AAA bonds, over 8% in AA and over 27% in A rated bond. And the balance is still investment grade or better in the BBB rated bonds.

Many counties are struggling with lower tax receipts. Falling real estate and income taxes are driving many counties and states in deficits. Are you not concerned that some of them may default?

We certainly consider this but municipal bonds have been around for a long time. We have seen difficult economies before. The one predominant thing these entities have over a long periods is that they continue to pay principal and interest even in rough times. We don't see excessive default rates across the nation even in this difficult recession. 

Spirit of America High Yield T/F Bond

Symbol	SOAMX
Website	www.davidlerner.com
Address	David Lerner Associates, Inc. 477 Jericho Turnpike Syosset, NY 11791
Telephone	877-367-5960
Inception	02/29/2008

PORTFOLIO	
Total Net Assets *	\$33.7
Turnover Ratio	N/A

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$500
Min Subsequent Investment	\$50
Min Initial IRA Investment	N/A

PORTFOLIO FACTS (AS OF 03/31/2009)	
Average Maturity	25.36 yrs
Average Coupon	5.48%
Average Duration	10.31 yrs
Federal Tax Exempt	100%
NY State Tax Exempt	25.64%
CT State Tax Exempt	14.12%
NJ State Tax Exempt	16.59%

RETURNS VS. BARCAP MUNICIPAL TR USD INDEX		
	SOAMX	Index
1 Year (Cum.)	-11.00%	3.11%
Year To Date	12.72%	6.31%

FEES AND EXPENSES	
Max Sales Charge - Front**	4.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	0.30%

PORTFOLIO MANAGER	
William Mason	2008
Raymond Mathis	2008

*millions **for amount invested less than \$100,000
04/30/2009; Source: Company Documents; Lipper

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