



# The Long-Term Fundamentals and Current Investment Prospects of INVESTMENT-GRADE CORPORATE BONDS

## The Fundamentals of Investment-Grade Corporate Bonds

With the economy still presented with challenges posed by a prolonged credit crisis and struggling stock market, investment-grade corporate bonds could be a strategic addition to your portfolio. This piece helps outline select attributes and current opportunities in investment-grade corporate securities to help you assess the potential role these securities may have in your portfolio.

### Historical Default Rates and Investment Risk

From a risk perspective, investment-grade corporate bonds—represented by those rated Baa or better by Moody’s—have historically exhibited lower default rates than lower-rated bonds. As of year-end 2008, the default rates of investment-grade corporate bonds haven’t risen above 1% since 1938<sup>1</sup>.

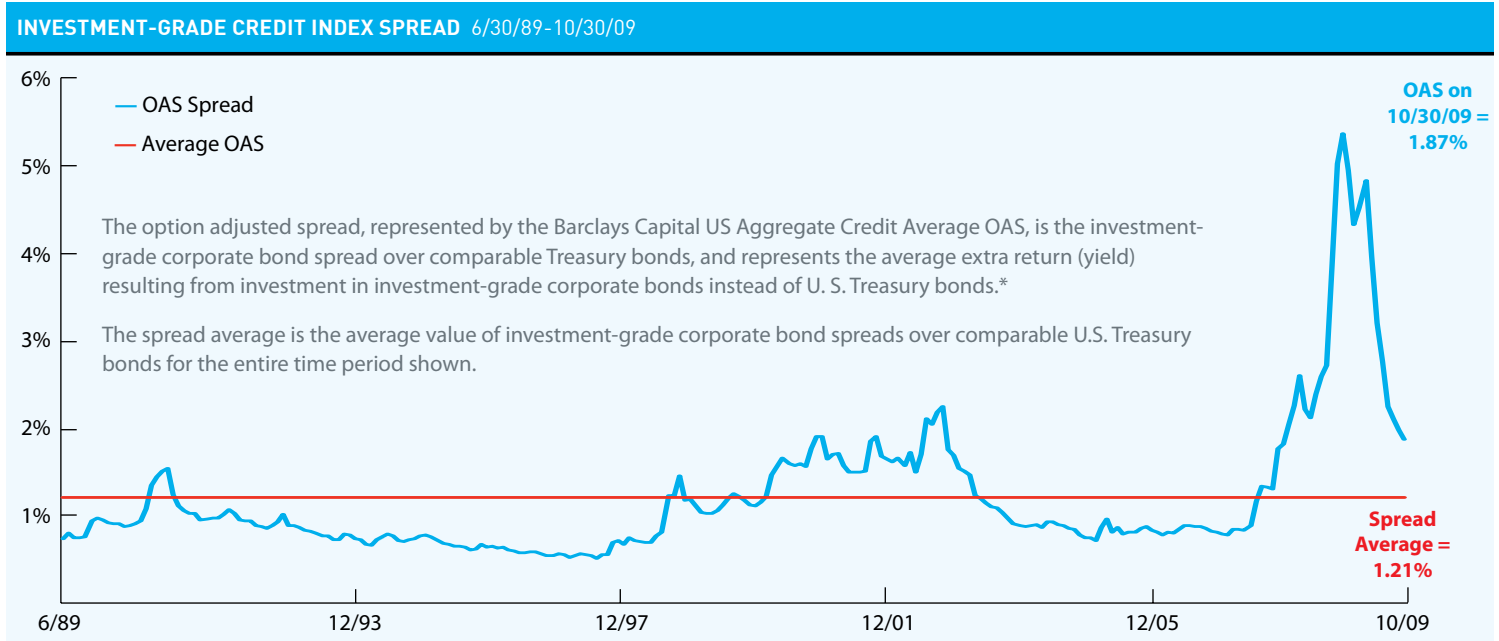
### ANNUAL ISSUER-WEIGHTED CORPORATE BOND DEFAULT RATES BY MOODY’S LETTER RATING, 1920-2008

Investment-Grade					
Rating	Aaa	Aa	A	Baa	Investment-Grade Average
Average	0.00%	0.06%	0.09%	0.27%	0.15%
Speculative-Grade					
Rating	Ba	B	Caa-C		Speculative-Grade Average
Average	1.06%	3.40%	13.10%		2.64%

Source: Moody’s Investment Service, Inc. **Past performance is not a guarantee of future results.** The chart above is for illustrative purposes only; it is not meant to forecast, imply or guarantee the future performance of any Claymore product. Credit quality, as rated by Moody’s, is an assessment of the credit worthiness of an issuer of a security. Other credit ratings may differ.

## Current Spreads in the Fixed-Income Market

Investment-grade corporate bond spreads have been well above their historic averages, which may present a unique opportunity for investors. For example, as shown by the graph below, the change to average spread between investment-grade corporate bonds and comparable U.S. Treasury securities (Treasuries), as of October 30, 2009, was approximately 50% above the normal range of 1.21%. [continued on back page >](#)



\*The spread is adjusted for the effects of embedded options; a call feature in which the issuer retains the right to retire the debt, fully or partially, before the scheduled maturity date.

Source: Bloomberg, November 2009. **Past performance is not a guarantee of future results.** The chart above is for illustrative purposes only; it is not meant to forecast, imply or guarantee the future performance of any Claymore product. It is not possible to invest directly in an index or in its underlying sectors. **The Barclays Capital US Aggregate Credit Average OAS** is the U.S. Credit component of the U.S. Government/Credit index. The Index is the average option adjusted spread of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

<sup>1</sup>Source: Moody’s Investment Service, Inc.

## DO INVESTMENT-GRADE CORPORATE BONDS MAKE SENSE FOR YOU?

Your advisor can help you determine if investment-grade corporate bond investments, either direct or through other investment vehicles such as a unit investment trust (UIT), have a place in your portfolio. By investing in a UIT, you can gain exposure to a basket of investment-grade corporate bonds versus owning individual bonds, which may help reduce the brokerage cost typically incurred when purchasing multiple bonds directly. Please keep in mind that by gaining exposure to investment-grade corporate bonds through a UIT, you will not actually own the individual bonds, but a unit in a trust. In addition to the risk associated with a UIT, you are also subject to the risk of corporate bonds. An issuer or an insurer of the bonds may be unwilling or unable to make principal payments and/or to declare distributions in the future, may call a security before its stated maturity, or may reduce the level of distributions declared. This may result in a reduction in the value of your units. Please make sure to read the individual investment product's prospectus for more information regarding the risks of corporate bonds as well as the investment vehicle.

### Current Spreads in the Fixed-Income Market (continued)

If the economy improves and spreads return to more normal levels, investors in higher-quality corporate bonds may benefit from capital appreciation and income opportunity as follows:

- **Income Potential:** Offering the potential for dividends, corporate bonds may provide investors with a source of income—an attractive feature particularly during times of market volatility.
- **Capital Appreciation:** As an economy improves, the yield spread between investment-grade corporate bonds and Treasuries may be reduced as investors' risk tolerance increases and they gravitate to investment opportunities with higher return potential such as corporate bonds. In response to the shift in demand, investors may gravitate to higher yields pushing the price of bonds upward.

### Post-Recession Performance

From an opportunistic perspective, investment-grade corporate bonds may be a strategic investment in the recovery period following an economic downturn when investors tend to gravitate away from lower-risk (and lower-yielding) investments and seek higher-returning investment opportunities that may offer some downside protection. For example, in the twelve-month period following the market trough of the last five complete recessions, investment-grade corporate bonds outperformed Treasuries in four out of the five periods. However, please remember that past performance is no guarantee of future results.

The National Bureau of Economic Research defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales."

### FOR MORE INFORMATION

ON CLAYMORE AND INVESTMENT SOLUTIONS THAT PROVIDE EXPOSURE TO OPPORTUNITIES IN INVESTMENT-GRADE CORPORATE BONDS, PLEASE CONTACT YOUR FINANCIAL ADVISOR OR VISIT [WWW.CLAYMORE.COM](http://WWW.CLAYMORE.COM).

#### INVESTMENT-GRADE CORPORATE BONDS VS TREASURY BONDS FOR THE 12-MONTH PERIOD FOLLOWING A MARKET TROUGH

Date of Market Trough for Last Five Complete Recessions	Barclays Capital US Credit Index	Barclays US Treasury Long Index
	12 Months after Trough	12 Months after Trough
March 1975	16.66%	11.91%
July 1980	-8.20%	-10.73%
November 1982	11.62%	5.19%
March 1991	12.84%	11.92%
November 2001	6.09%	10.08%

Source: Zephyr StyleAdvisor, 2009. **Past performance is no guarantee of future results.** The table above is for illustrative purposes only; they are not meant to forecast, imply or guarantee the future performance of any Claymore product. Index definitions: Barclays Capital US Credit Index is the U.S. Credit component of the U.S. Government/Credit index. The Index contains publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. Barclays Capital US Treasury Long Index is the 20+ Yr component of the U.S. Treasury index. Securities in the Treasury Index (i.e., public obligations of the U.S. Treasury) include those with a maturity of 20 years or more.

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