Edward Jones
MAKING SENSE OF INVESTING

Utility Stock Prices and Interest Rates

UTILITIES SECTOR REPORT

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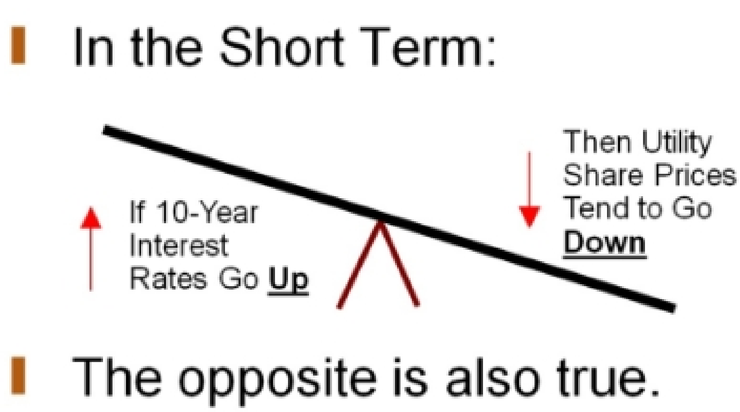
Investment Overview

Higher dividend-paying stocks historically have tended to exhibit a strong relationship between their dividend yields and long-term interest rates (i.e., 10-year Treasury bond rate). If long-term interest rates rise (all else being equal), many utilities could potentially see significant declines in share price. However, we believe that by owning quality utility stocks in appropriate amounts, investors have the ability to earn a competitive total return over the long term.*

Assuming a 1-for-1 relationship between changes in long-term interest rates and utility stock yields, an immediate upward shift in long-term interest rates by 0.5%, 1.0%, 1.5% and 2.0% would imply the following price declines:

Increase in Interest Rates		+0.5%	+1.0%	+1.5%	+2.0%
Yield	5.0%	5.5%	6.0%	6.5%	7.0%
Annual Dividend	$0.50	$0.50	$0.50	$0.50	$0.50
Stock Price	$10.00	$9.09	$8.33	$7.69	$7.14
Price Decline		-9.1%	-16.7%	-23.1%	-28.6%
Equivalent Years of Dividends		1.8	3.3	4.6	5.7

While this example is hypothetical, it is important to note that today's interest rates are low by historical standards. Recent yields on the 10-year T-bond have declined again and are now near their lowest levels in history. While it doesn't seem likely right now, if we do see a period in which the Fed again increases short-term rates, this could be a drag on the share prices of many utilities.



A Case History

History provides us with examples of what can happen. From 10/15/93 to 11/07/94, the yield on the 10-year T-bond increased rapidly from 5.17% to 8.03%. During this time, the S&P 500 Utilities Index** declined over 23%.

However, the long-term performance of this index has been much better. Over the last several decades, the S&P Utilities index has provided mid-single-digit average annual total returns.

What Investors Should Do

We believe utilities still have a place in your portfolio because they typically provide both the potential for dividends and, when bought with other stocks, diversification. In fact, we follow several utilities today with a Buy rating for growth-and-income investors. However, investors should understand that prices of utility stocks can decline significantly over the short term (without a change in company fundamentals) due to increases in long-term interest rates. Please see your financial advisor for a portfolio review, if necessary, to help ensure your portfolio is properly diversified.

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*It is important to remember there are risks to investing in stocks. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely.

The S&P 500 Utilities Index consists of 28 companies within the S&P 500 Index. The S&P 500 Index is based on the average performance of 500 widely held common stocks. These are unmanaged indexes and cannot be invested in directly. **Past performance is no guarantee of future results.

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An index is not managed and is unavailable for direct investment.

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