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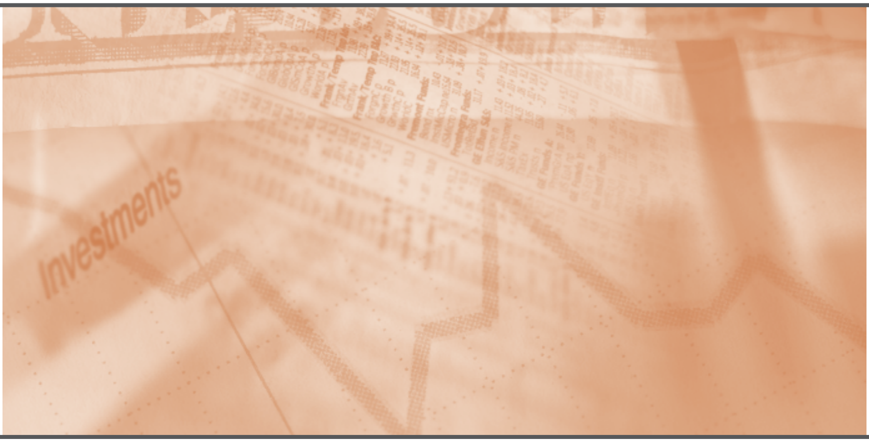

A GUIDE TO

Unit Investment Trusts

A **unit investment trust (UIT)** is a registered investment company that buys and holds a generally fixed portfolio of stocks, bonds, or other securities.

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What Is a Unit Investment Trust?

A unit investment trust (UIT) is a registered investment company that buys and holds a generally fixed portfolio of stocks, bonds, or other securities. "Units" in the trust are sold to investors (unitholders) who receive a share of principal and dividends (or interest).

A UIT has a stated date for termination that varies according to the investments held in its portfolio. A UIT investing in long-term bonds may remain outstanding for 20 to 30 years. UITs that invest in stocks may seek to capture capital appreciation over a period of a year or a few years. When these trusts are dissolved, proceeds from the securities are either paid to unitholders or reinvested in another trust.

This brochure discusses how UITs operate and provides a general overview of the different types of UITs.

Before You Buy

Establishing realistic financial goals is an essential first step toward successful investing. Most Americans invest to meet long-term goals, such as ensuring a secure retirement or paying for a child's college education, but many also have more immediate goals, like making a down payment on a home or automobile.

Understanding the investments best suited to help you achieve those goals is equally important. The right investment vehicle will depend on any number of factors, including your financial circumstances, age, income, and your time horizon. You should also assess your attitude toward investment risk. All investments involve some risk, with some presenting more than others. Usually, the greater investment risk you assume, the greater your potential reward. Because UITs invest in securities markets, it is crucial to maintain realistic expectations about the performance of those markets. Successful investors base their performance expectations on historic average market returns, and keep short-term price movements in the market in perspective.

Key Features of Unit Investment Trusts

Professional Selection

The securities in a UIT are professionally selected to meet a stated investment objective, such as growth, income, or capital appreciation. The securities held by a UIT are listed in its prospectus (see *Regulation and Disclosure*, page 10). UITs employ a "buy-and-hold" investment strategy: once the trust's portfolio is selected, its securities typically will not be sold or new ones bought. (Some UITs may sell or replace a security if questions arise concerning the financial viability of the issuer or the security's creditworthiness.)

Diversification

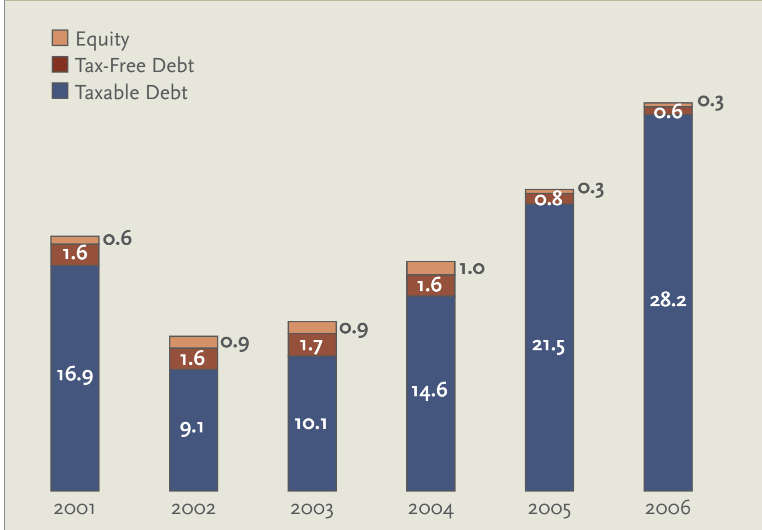
A UIT diversifies its holdings by purchasing a variety of stocks or bonds. The trust's diversified investment portfolio helps reduce an investor's risk by offsetting potential losses from some securities with potential gains in others. The average investor might find it expensive and difficult to construct a portfolio of individual securities as diversified as that of a UIT.

Variety

There are two main types of UITs, fixed-income and equity, although a variety of UITs within those two categories are available to meet almost any investment objectives and level of risk tolerance you choose. UITs invest in a wide range of securities, including municipal and corporate bonds, U.S. government securities, common or preferred stock (domestic and international), mortgage-backed securities, and international bonds (see *Types of Unit Investment Trusts*, pages 14-15).

Historically, the majority of UIT assets have been invested in fixed-income investments, especially tax-free municipal bonds. In recent years, however, ICI research indicates that deposits in equity UITs have exceeded deposits in both taxable and tax-free debt (see *Deposits in UITs*, below), reflecting investor interest in the capital growth opportunities afforded by the equity markets. Many equity UITs are structured to mirror the performance of a particular stock index, and give investors a way to participate in broad market trends. UITs that concentrate on specific market segments, such as health care, energy, technology, real estate, telecommunications, or certain international markets, seek to capitalize on price appreciation in those market segments.

DEPOSIT IN UITS
(billions of dollars at year-end)



Note: Figures are based upon the total number of UITs reporting to the Institute, which represents the majority of all UITs.

Distribution Frequency

Investors who choose fixed-income UITs typically receive regular income, usually monthly. In contrast, investors holding bonds directly receive interest semiannually or even annually. Investors who choose equity UITs may receive dividend income monthly, quarterly, or semiannually, or simply reap any long-term capital appreciation the trust may accrue following its dissolution. (Of course, a UIT, like any investment, may potentially lose money as well.)

Reinvestment and Exchange

Fixed-income UITs generally permit unitholders to automatically reinvest distributions of interest income and/or principal into a separate mutual fund that holds similar securities or in limited cases, into another series of the UIT. Equity UITs frequently offer reinvestment in additional units of the same trust. Reinvesting interest income and/or principal distributions expands an individual's holdings, and allows compounding to enhance overall potential return.

Some UITs allow investors to exchange units for those in another UIT to accommodate a changed investment objective or market outlook by the investor, and many offer a reduced sales charge for new units purchased through an exchange.

Investment Return

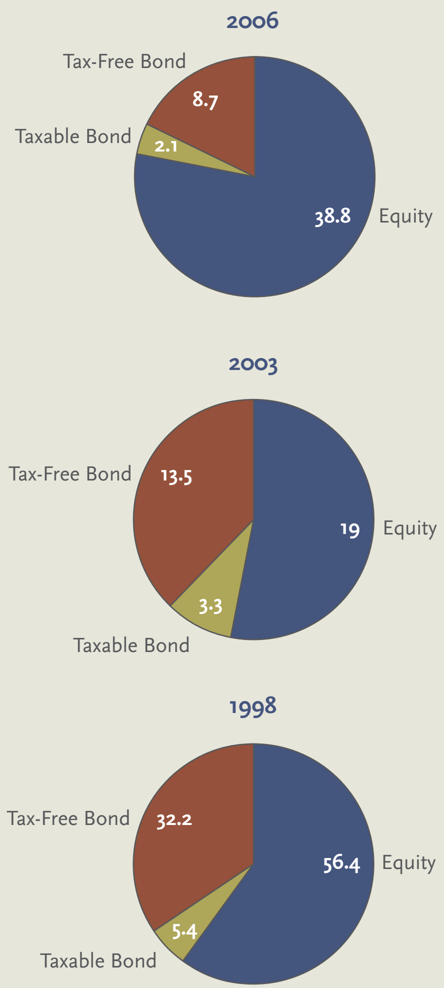
A UIT typically quotes "estimated current return" in its advertising, sales literature, and prospectuses. Estimated current return is defined as estimated net annual interest income per unit divided by the offering price, and is a measure of a trust's current cash flow. In fixed-income UITs—because the bonds remain unchanged except when they are sold, called, or mature—any income paid may remain relatively predictable over the life of the UIT.

Fixed-income UITs also quote an estimated long-term return or estimated yield. This performance measure is calculated using a formula that averages the "yield to maturity" of the bonds in the trust, giving weight to the call or maturity date and market value of each bond, and reflects the impact of any sales charges.

Of course, there is no guarantee that the estimated current return or the estimated long-term return (or estimated yield) will be realized. For example, defaults by bond issues and bond calls can reduce expected return. If an investor sells units prior to maturity, the price may be higher or lower than the price originally paid.

The performance, or total return, of equity UITs is typically based on the price changes of the stocks and other securities held in the UIT, plus reinvestment of any income and distributions the UIT receives from its securities. An equity UIT's total return is determined by dividing all of the realized and unrealized gains by its original public offering price. This figure fluctuates according to the changing valuations of the stocks and other securities held in the UIT and as market and economic conditions change in the U.S. and abroad.

TOTAL MARKET VALUE OF UITS OUTSTANDING
(billions of dollars)



Buying and Selling Units

Investors can obtain UIT price quotes from brokerage or investment firms, and some but not all UITs list their prices on Nasdaq's Mutual Fund Quotation Service (www.nasdaq.com). Some publications, such as *Barron's*, call UITs "defined asset funds" and list prices weekly. Some broker-dealers sponsor their own trusts or sell trusts sponsored by nationally recognized independent sponsors. Units of these trusts may be purchased through their registered representatives. Investors may also purchase units from the representatives of smaller investment firms that sell trusts sponsored by third-party bond and brokerage firms.

While only a limited number of units of a UIT are sold in an initial public offering, many trust sponsors voluntarily maintain a secondary market in trust units (where outstanding units are repurchased from initial investors and subsequently resold to other investors). Thus, an investor may be able to purchase units in the secondary market.

Liquidity

Although many investors purchase units with the intention of holding them until the trust terminates, UIT investors may sell their units at any time. Even in the absence of a secondary market for UITs, trusts are required by law to redeem (buy back) outstanding units at their net asset value (NAV), which is based upon the current market value of the underlying securities. The NAV may be more or less than the price the investor paid initially.

If your investment objectives change, some UIT sponsors allow you to exchange your units for another UIT at a reduced sales charge. Unit trusts can be purchased, sold, or exchanged on any business day at the current net asset value—including the deduction of any applicable sales charges.

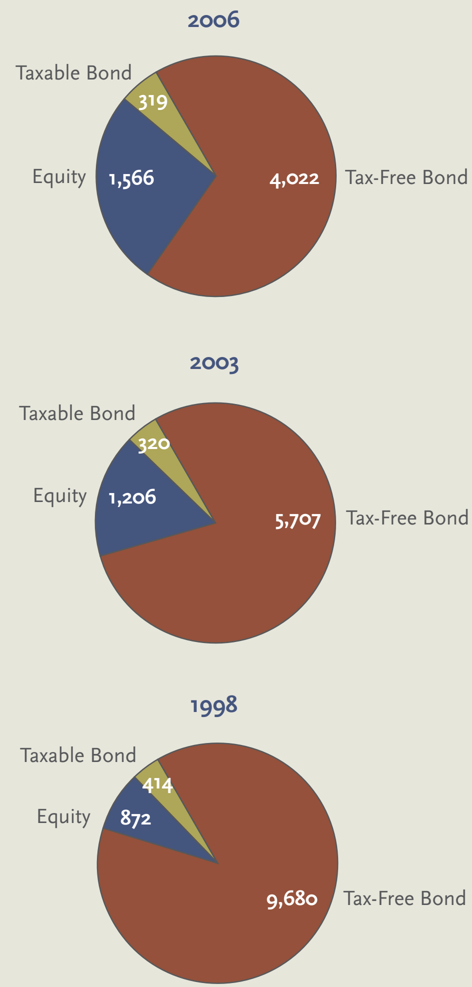
Regulation and Disclosure

Unit investment trusts are subject to stringent federal laws and oversight by the U.S. Securities and Exchange Commission (SEC). In addition to being regulated by the same federal securities laws as other publicly offered investments (under the Securities Act of 1933), UITs, like mutual funds and closed-end funds, are subject to the Investment Company Act of 1940. This federal statute is highly detailed and governs the structure and day-to-day operations of trusts.

UITs are required by law to provide a prospectus containing information about the trust, including investment objectives, portfolio securities, sales charges and expenses, and terms for the buying and selling of units. Investors receive a prospectus with their confirmation of the sale, regardless of whether they buy units in the initial offering or in the secondary market. Unitholders also receive an annual report from the UIT.

UIT annual reports contain financial statements, audited by the trust's independent public accountants, and the trust management's discussion of fund operations, investment results, and strategies. In addition, a UIT or an investor's broker may provide statements that update and summarize individual account holdings and values.

NUMBER OF UITS OUTSTANDING



Fees and Expenses

UITs are affordable—investors can purchase a trust's portfolio of several stocks or bonds with one transaction and at one purchase price. Generally, there is a $1,000 minimum investment for UITs, although the amount can usually be lowered if purchased for Individual Retirement Accounts (IRAs).

UIT investors generally pay a sales charge, or load, at the time of initial purchase, and often pay deferred sales charges. The offering price, which is the price paid to purchase units, reflects the current NAV plus the initial sales charge. Sales charge discounts may be available for large purchases.

UITs pay an annual fee to cover operating expenses and often to reimburse the trust sponsor for its supervisory activities, organization costs, and a creation and development fee. Since UITs offer a fixed portfolio, there are no investment management fees and, because the buying and selling of portfolio securities is limited, transaction costs are minimal. Further, there are no ongoing marketing fees charged to the trust, as most UITs do not continually market their units to the public.

Taxes

Generally, unitholders must pay income taxes on the interest, dividends, and/or capital gains distributed to them, although in retirement accounts such as IRAs taxes are deferred until distributions are taken from the account. UITs provide IRS Form 1099 to their unitholders annually to summarize the trust's distributions. Also, when an investor sells units, he or she will realize either a taxable gain or a loss that should be reported on income tax returns. Certain UITs provide income that is free from federal and/or state taxation.

COMPARING

Tax-Free and Taxable Investments

To figure out whether a tax-free investment is more advantageous than a taxable investment, use the following simple formula. Subtract your tax bracket from the number 1. For example, if you are in the 28 percent bracket, 1-0.28 = 0.72. If you have a tax-free yield of 6 percent, you find its taxable equivalent by dividing it by 0.72. Therefore, 8.33 percent (0.06 ÷ 0.72 = 0.087) is the yield you would need to receive from a taxable investment to match the tax-free yield.

The table below contains more tax-equivalent yields, which are hypothetical and do not represent the performance of any particular investment.

You would need the following taxable yields to equal the tax-free yields in the lefthand column:

	Taxable Yield			
Tax-Free Yield	25% Tax Bracket	28% Tax Bracket	33% Tax Bracket	35% Tax Bracket
4.0%	5.33%	5.56%	5.97%	6.15%
4.5	6.00	6.25	6.72	6.93
5.0	6.67	6.94	7.46	7.69
5.5	7.33	7.64	8.21	8.46
6.0	8.00	8.33	8.96	9.23
6.5	8.67	9.03	9.70	10.00
7.0	9.33	9.72	10.45	10.77
7.5	10.42	10.42	11.19	11.54
8.0	10.67	11.11	11.94	12.31

TYPES OF
Unit Investment Trusts

There are UITs to satisfy a variety of investment objectives, from conservative to aggressive.

Corporate Bond UITs hold bonds issued by corporations. They seek a high level of income while maintaining low risk. As an added degree of safety, some of these UITs may be privately insured to guarantee timely payment of interest and principal on the bonds in the trust. Uninsured corporate bond UITs usually reduce risk by investing only in high-quality (investment-grade) bonds.

Equity UITs are portfolios of preselected domestic and/or international stocks that are chosen based upon their potential to provide total return. Equity UITs include specialty trusts, such as index trusts, that offer portfolios mirroring specific market indices like the S&P 500. Other equity UITs concentrate on specific market trends, such as telecommunications, health care, and energy. Many UIT sponsors also offer equity UITs that adhere to specific investment approaches, such as contrarian, growth and value, and emerging market strategies.

Internatioinal Bond UITs hold debt issues of foreign companies and governments. They provide access to foreign, fixed-income markets, which are difficult for the average, middle-income investor to access directly. Because these trusts are denominated in foreign currencies and then converted into U.S. dollars, they are subject to an extra level of price and performance fluctuation, but often offer higher return potential to help offset potential currency volatility.

Mortgage-Backed Securities UITs seek a high level of income by holding mortgages backed by government-sponsored enterprises, such as the Government National Mortgage Association (Ginnie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac).

National Municipal Bond UITs hold bonds issued by states and municipalities to finance schools, highways, hospitals, airports, bridges, and other public projects. In most cases, the federal government does not tax income earned on these securities (although it may be taxed under state and local laws), making municipal bonds an attractive investment for higher-income taxpayers. For some taxpayers, portions of income earned on these securities may be subject to the federal alternative minimum tax.

State Municipal Bond UITs work just like national municipal bond UITs, except that their portfolios contain the issues of only one state. A resident of that state has the advantage of receiving income free of both federal and state personal income tax, and, in some cases, local and other taxes. Again, for some taxpayers, portions of income may be subject to the federal alternative minimum tax.

U.S. Government Securities UITs seek to provide income with a minimal level of risk by holding a variety of government securities, such as U.S. Treasury bonds and other government notes, which are considered among the safest bond investments.

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