EXHIBIT 2

Incremental After-Tax Cash Flows of Short-Term-Loss Realization Strategy

The bond has 10% annual coupon, three-year maturity, is purchased at par, and the yield changes from 10% at the beginning of the first year to 15% at the end. Panel A shows that the after-tax yield to maturity equals 7.20% if the investor chooses not to sell at the end of the first year. Panel B shows that the after-tax yield rises to 7.31% if the investor realizes a capital loss after rates rise. An ordinary income tax rate of 28% and the rate for capital loss of 28% are assumed.

	Year 0	Year 1	Year 2	Year 3
PANEL A				
Before-tax cash flow (CF)	($1,000)	$100	$100	$1,100
Basis	$1,000	$1,000	$1,000	$1,000
Taxes on coupons		($28)	($28)	($28)
After-tax CF	($1,000)	$72	$72	$1,072
After-tax yield (IRR)	7.20%			
PANEL B				
Basis		$918.71	$956.52	$1,000
Accrued interest				81.29
Taxes on accrued interest				($22.76)
Capital loss		-81.29		
Tax shield from capital loss		$22.76		
After-tax CF	($1,000)	$94.76	$72	$1,049.24
After-tax yield (IRR)	7.31%			
Incremental after-tax CF		$22.76	$0	($22.76)