



PORTFOLIO MANAGER'S REPORT



Thursday May 06, 2010 8:53 AM

Kansas City Office: (800) 288-5489
Oklahoma City Office: (866) 288-8823
Tulsa Office: (800) 288-1956

CURRENT OFFERING YIELDS - Thursday: 05/06/2010 8:53 AM

TODAY'S ECONOMIC DATA

Trsy (Last Price)	Change (From Yest)	Agcy NC (Bullets)	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)	6-May	6-May	6-May
3 mo	0.137%	-0.90 bp's	0.164%	0.344%		Nonfarm Productivity	Prior: 6.9% Actual: 3.6%	
6 mo	0.193%	-2.00 bp's	0.228%	0.465%		Unit Labor Costs	Prior: -5.9% Actual: -1.6%	
12 mo	0.361%	-0.4 32'ds	0.456%	0.738%		Initial Jobless Claims	Prior: 448K Actual: 444K	
2 yr	0.849%	+0.5 32'ds	0.980%	1.314%	1.749%			
3 yr	1.329%		1.460%	1.920%	2.329%			
5 yr	2.290%	UNCH	2.420%	3.132%	3.140%			
10 yr	3.543%	UNCH	3.736%	5.117%	4.493%			
30 yr	4.384%	-1.0 32'ds	4.906%	7.011%	4.543%			
						DJIA	10,844.24	-23.88
						NASDAQ	2,398.32	-3.97
						S & P 500	1,163.52	-2.38

Source: Bloomberg Fair Value Curve or Last Price (Treasury only); ALL yields and spreads are "representative", not actual. Spreads change as the market changes, actual offerings may be higher or lower than

TODAY'S NEWS

Treasury 10-Year Yields Trade Near Four-Month Low on European Debt Concern

May 6 (Bloomberg) -- Treasury 10-year yields traded near a four-month low as stocks and U.S. stock futures fell on concern Europe's debt crisis is worsening. U.S. government securities rose for the past two days, driving down yields, on concern Greece's sovereign-debt problem may spread. European Central Bank President Jean-Claude Trichet today resisted pressure from economists to consider buying government bonds to help relieve the crisis. He said in Lisbon the bank "didn't discuss the matter" at its meeting today.

Today's Topic: "Mortgage Bond Spreads at Widest in Five Months"

The headline above is taken from an article appearing yesterday on Bloomberg. Indeed, yields on FNMA and FHLMC mortgage-backed securities climbed to the highest in five months relative to treasuries. After hitting a record low March 29, agency spreads have widened -- due partly to the Federal Reserve ending its program that purchased \$1.25 trillion of mortgage bonds over the previous 15 months, and also to the recent flight to quality to treasuries due to the European solvency issues. The government purchase program intended to reduce home financing costs by decreasing the supply of mortgage securities in the market and, thus, drive down yields or at least keep them at lower levels. Mission Accomplished.

But now that spreads have begun to widen again, maybe it's time to reconsider adding some shorter final maturity mortgage product to the portfolio mix. Shown below is a 15 year FHLMC pool with a 4.00% coupon and a dollar price of 102 11/32.

Msg: S. IMMING

FGE02686		4% 4/ 1/25		ADV: <PAGE>																											
SS	<GO> 31294L6X6	MBS:FHEO (Gold)	LOANS: 2.024	Vectors	SS <Go>																										
SS	FGCI 4 N	4.422(176)3	UAC(UAM)UALA APR10																												
APR	Ime - F - C	4/ 1/10: 475,000,068	next pay 6/15/10 (monthly)	CA	IL UZ OTHR																										
'10	2me - - -	4/ 1/10: 475,000,068	rcd date 5/31/10 (14 Delay)	14.1	8.7 7.0 70.1																										
Ime	- - -	factor 1.000000000000	accrual 5/ 1/10- 5/31/10	2009	2010																										
12me	- - -			31.0	3.0																										
Life	- - -																														
YIELD TABLE																															
5/18/10																															
E-Median:	+300bp ₁₀₁	+200bp ₁₁₅	+100bp ₁₄₇	0bp ₂₂₈	-100bp ₇₈₃	-200bp ₁₄₈₈	-300bp ₁₆₆₇																								
Very	PRICE <input type="checkbox"/> 3/2	<input type="checkbox"/> 101 PSA	<input type="checkbox"/> 115 PSA	<input type="checkbox"/> 147 PSA	<input type="checkbox"/> 228 PSA	<input type="checkbox"/> 783 PSA	<input type="checkbox"/> 1488 PSA	<input type="checkbox"/> 1667 PSA																							
102-11	3.568	3.555	3.524	3.444	2.862	2.155	1.944																								
AvgLife	6.35	6.15	5.73	4.86	2.27	1.37	1.23																								
Mod Dur	5.34	5.19	4.88	4.22	2.13	1.33	1.19																								
DATEWindow	6/10- 12/18/24	6/10- 12/18/24	6/10- 12/18/24	6/10- 12/18/24	6/10- 12/18/24	6/10- 7/18/20	6/10- 8/18/12																								
Spread	<input type="checkbox"/> +84/AL	<input type="checkbox"/> +89/AL	<input type="checkbox"/> +101/AL	<input type="checkbox"/> +124/AL	<input type="checkbox"/> +187/AL	<input type="checkbox"/> +161/AL	<input type="checkbox"/> +147/AL																								
<table border="1"> <tr> <td colspan="8">Treasury Curve - BDN 10:07</td> </tr> <tr> <td>6me</td> <td>-1-</td> <td>-2-</td> <td>-3-</td> <td>-5-</td> <td>-7-</td> <td>-10-</td> <td>-20-</td> </tr> <tr> <td></td> <td>0.20</td> <td>0.26</td> <td>0.34</td> <td>1.28</td> <td>2.26</td> <td>2.98</td> <td>2.81 4.28</td> </tr> </table>								Treasury Curve - BDN 10:07								6me	-1-	-2-	-3-	-5-	-7-	-10-	-20-		0.20	0.26	0.34	1.28	2.26	2.98	2.81 4.28
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	0.20	0.26	0.34	1.28	2.26	2.98	2.81 4.28																								

15-year (formed after 5/1/87) (NRM) 1-YT

Australia 61 2 9777 8600 Brazil 5511 2048 4800 Europe 44 20 7220 7800 Germany 45 65 9204 1210 Hong Kong 882 2577 6000
Japan 81 2 2201 8900 Singapore 88 8212 1000 U.S. 1 212 218 2000 Copyright 2010 Bloomberg Finance L.P.
SN 120178 0704-889-1 06-May-2010 10:11:17

With a projected 3.44% yield and 4.86 year average life, this bond spreads the comparable maturity treasury by 124 basis points. And in a +300 rising interest rate scenario, the extension to the average life is only 1.5 years.

31294L6X6 Mtge CFT
 Note: Extended settlement date. Using projected start factor.
PROJECTED CASH FLOWS

Msg: S.IMMING

Download: 22<GO>
 FGC: POOL E02686 4.00%
 Show Cashflow Settle 5/18/10
 Net 4 Gross 4.422 Balloon or Lockout? N
 Orig Balance 1,000,000.00 Proj.
 Curr Balance 994,426.14 0.99442614
 Term 14: 11 Rem WAM 14: 7 IO 0: 0 Plan 0 LevelPay

PAGE 3 OF 4
 BGN
 Delay 44(14)
 Prepayment 228 PSA
 PPL
 CPA
 PSA
 SMM

Note: Cashflows are "as is" and do not use actual factors.

YEAR	Date	Principal Balance	Interest	Regular Principal	Prepaid Principal	Net Flow
1	5/15/11n	899,398.91	38,199.17	48,789.53	46,237.71	133,226.41
2	5/15/12	762,655.03	33,577.86	47,264.73	89,479.15	170,321.74
3	5/15/13	618,592.64	27,786.23	43,353.63	100,708.77	171,848.62
4	5/15/14	497,864.70	22,458.35	39,113.14	81,614.79	143,186.29
5	5/15/15	397,185.03	18,007.84	35,286.07	65,393.60	118,687.52
6	5/15/16n	313,465.35	14,301.01	31,833.47	51,886.20	98,020.69
7	5/15/17	244,073.72	11,222.93	28,718.69	40,672.95	80,614.57
8	5/15/18	186,768.71	8,675.69	25,908.68	31,396.33	65,980.70
9	5/15/19	139,643.09	6,575.93	23,373.62	23,752.00	53,701.55
10	5/15/20	101,075.35	4,852.74	21,086.60	17,481.14	43,420.48
11	5/15/21n	69,688.21	3,445.87	19,023.36	12,363.78	34,833.01
12	5/15/22n	44,313.01	2,304.15	17,162.00	8,213.20	27,679.36

Australia 61 2 3777 8500 Brazil 5511 2048 4800 Europe 44 20 7220 7500 Germany 49 69 3204 1210 Hong Kong 852 2977 6000
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 SN 120178 0754-885-0 06-May-2010 10:12:27

Shown above is the Cash Flow Table for this bond based on the Bloomberg modeled speed of 228 PSA. At this speed assumption, you can see that half of the principal is returned at four years. Good yield, short average life, low premium dollar price, heavy consistent cash flows – we continue to recommend these key attributes for the well positioned portfolio.