



PORTFOLIO MANAGER'S REPORT



Wednesday June 16, 2010 8:48 AM

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CURRENT OFFERING YIELDS - Wednesday: 06/16/2010 8:48 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)			
3 mo	0.071%	UNCH	0.117%	0.405%		16-Jun	Bloomberg Global Confidence	
6 mo	0.155%	-0.60 bp's	0.230%	0.480%		16-Jun	MBA Mortgage Applications	Prior: 51.36 Actual: 36.63
12 mo	0.272%	-0.3 32'ds	0.485%	0.692%		16-Jun	Producer Price Index (MoM)	Prior: -12.2% Actual: 17.7%
2 yr	0.734%	+1.0 32'ds	0.996%	1.192%	1.634%			Prior: -0.1% Actual: -0.3%
3 yr	1.172%		1.437%	1.793%	2.272%			
5 yr	2.048%	+1.5 32'ds	2.319%	2.995%	3.148%		DJIA	10,362.83 -41.94
10 yr	3.269%	+1.5 32'ds	3.538%	5.026%	4.169%		NASDAQ	2,300.19 -5.69
30 yr	4.196%	+9.0 32'ds	4.794%	6.950%			S & P 500	1,111.10 -4.13

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

Treasuries Little Changed After Reports on Manufacturing, Investment Flow

June 16 (Bloomberg) -- Treasury 10-year notes rose for the first time in three days as reports showed housing starts fell in May the most in more than a year and producer prices dropped. The gain sent the yield down from almost the highest level since June 4. The euro fell against the dollar as Spain, the International Monetary Fund, the European Commission and the U.S. Treasury dismissed a report in the newspaper El Economista that the Iberian nation is seeking a 250 billion euro (\$307 billion) credit line.

Today's Topic: Don't Forget the Right Side of that Barbell

Hard to believe but this month marks the two year anniversary of declining and low rates. For a good portion of those two years many have been waiting for a sudden reversal to a higher rate environment. There's been one small problem, every time the economy takes a step forward; it seemingly quickly takes one step back.

For many investors, the best defensive game plan was to adopt a barbell portfolio, which you have read about many times in this publication. The barbell gives you liquidity to reinvest into higher rates, and also provides you current earnings to ensure you are around to invest in those inevitable higher rate environments.

If you are using a barbell approach, today's advice is to not forget the right, or "earnings" portion of your portfolio. Many economic numbers point to an economy, and thus interest rates, that are going nowhere fast. They include:

May Private Payroll gains of only 41,000 jobs, (+ 180,000 were expected).

Retail Sales -1.1% (+.1% was expected)

Producer Price Index Ex Food and Energy +.2% year over year +1.3%, (inflation is benign).

And today, Housing Starts, Month over Month -10.0%, (-3.7% expected).

Remember the most important aspect of longer term investing is Quality, Quality, Quality.

Below is a recent example:

YTC		Muni		YTC				
FAIR GROVE SD RX	(MO) FAISCD	5	03/01/25	DATED:	06/15/07 MSRB			
SETTLEMENT DATE	6/21/10	PRICE	111.019	ATY	YLD			
YIELD TO MATURITY	3/ 1/25	@REDM.	100	4.000	4.000			
YIELD TO NEXT CALL	3/ 1/17	@REDM.	100	3.160	3.160			
YIELD TO WORST CALL	3/ 1/17	@REDM.	100	3.160	3.160			
TAX RATES: EQUIVALENT	34.00	CAP. GAIN	15.00	ORD. INCOME	34.00			
				OID & CPN	0.00			
DATE	PRICE	YIELD	AFT. TAX YIELD	EQUIV YIELD	TREAS CURVE	PERCENT OF TREAS	ADJUSTED DURATION	RISK FACTOR
3/ 1/17	100	3.160	3.160	4.788	2.667	118.492	5.660	6.371
3/ 1/18	100	3.362	3.362	5.094	2.943	114.249	6.360	7.158
3/ 1/19	100	3.517	3.517	5.329	3.181	110.554	7.029	7.911
3/ 1/20	100	3.640	3.640	5.515	3.288	110.699	7.668	8.630
3/ 1/21	100	3.740	3.740	5.666	3.393	110.222	8.279	9.317
3/ 1/22	100	3.822	3.822	5.791	3.522	108.531	8.862	9.974
3/ 1/23	100	3.891	3.891	5.896	3.650	106.599	9.420	10.602
3/ 1/24	100	3.950	3.950	5.985	3.779	104.521	9.953	11.202
3/ 1/25	100	4.000	4.000	6.061	3.908	102.359	10.463	11.776

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