



PORTFOLIO MANAGER'S REPORT



Tuesday June 29, 2010 9:08 AM

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CURRENT OFFERING YIELDS - Tuesday: 06/29/2010 9:08 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)	29-Jun	S&P/CS 20 City MoM% SA
3 mo	0.136%	-0.50 bp's	0.133%	0.435%			Prior: -0.05% Actual: 0.44%
6 mo	0.205%	-0.10 bp's	0.232%	0.526%			S&P/CS Composite-20 YoY
12 mo	0.260%	-0.2 32'ds	0.427%	0.738%			Prior: 2.35% Actual: 3.81%
2 yr	0.601%	+ 1.5 32'ds	0.800%	1.283%	1.501%	1.551%	Consumer Confidence
3 yr	0.993%		1.208%	1.894%	1.993%	2.093%	Prior: 63.3 Actual: 52.9
5 yr	1.777%	+ 3.5 32'ds	2.025%	3.117%	2.627%	2.927%	DJIA
10 yr	2.969%	+ 3.5 32'ds	3.272%	5.117%	3.919%	3.969%	NASDAQ
30 yr	3.970%	+ 14.5 32'ds	4.606%	6.950%			S & P 500
							9,911.42
							2,154.25
							-227.10
							-66.40
							-26.08

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 Rise on Flight to Safety as Two-Year Yield Falls to Record Low

June 29 (Bloomberg) -- Treasuries rallied a day before the quarter ended, pushing two-year note yields to a record low and 10-year yields below 3 percent for the first time since April 2009, on concern global growth is slowing. U.S. government bonds were headed for their best quarter since the 2008 financial crisis as an index of China's leading economic indicators had its smallest gain in five months. Treasuries also rose as U.S. buyers sought to increase the duration of portfolios to match their benchmarks at the end of the second quarter.

Today's Topic: Market Timing for Bond Profits

We are not saying that we know beyond a shadow of doubt that now is the best time to realize bond profits. What we are saying is, bond portfolio managers, more likely than not, will realize more profit potential from selling bonds when prices are rising, and not falling. It is almost impossible to hit the exact high or low in markets. We can tell you when markets are overbought (too high) and when markets are oversold (too low), by employing technical indicators such as relative strength index. The only sure-fire method to identify market tops and bottoms is retrospectively, or after the fact.

The ten-year Treasury's low yield was 2.05% on December 30, 2008 (see graph). The current yield on the 10-year Treasury is 3.04%. Will the ten year Treasury's yield fall to 2.05% again? We do not know if this will happen, but it could happen. When bond prices are in a falling trend (higher yields), bond dealers are not eager to build inventory. There are 18 primary bond dealers currently, whereas several years ago there were 42 primary bond dealers. The fact is the market has fewer bidders today than just a few short years ago. Not all dealers bid all types of bonds.

Should bonds reverse the current upward price trend, the ensuing drop in prices could be brutal and swift. Markets tend to fall faster than they go up. As soon as the current bond trend reverses, you will have to stand in line to get a bid on bonds. Most portfolio managers agree that bond prices are historically high. If you are inclined to take profits, ask yourself how confident you are in receiving strong bids and identifying market tops. These decisions should be made in board and management committee meetings prior to acting. An important question to ask is what will happen to future earnings, if bond profits are realized today. There are good business reasons to realize bond profits, such as improving capital. Don't try to be a market maven by yourself. Consult with your co-workers and directors. You do not have to slaughter the whole herd; you can cull just a few bonds.

