



PORTFOLIO MANAGER'S REPORT



Thursday July 08, 2010 8:50 AM

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CURRENT OFFERING YIELDS - Thursday: 07/08/2010 8:50 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	0.155%	+ 0.80 bp's	0.143%	0.374%			8-Jul	Initial Jobless Claims
6 mo	0.186%	- 0.50 bp's	0.202%	0.465%			8-Jul	Prior: 472K Actual: 454K
12 mo	0.293%	UNCH	0.412%	0.677%			8-Jul	Continuing Claims
2 yr	0.625%	UNCH	0.786%	1.192%	1.525%	1.575%		Prior: 4616K Actual: 4413K
3 yr	1.023%		1.181%	1.773%	2.023%	2.123%		Consumer Credit
5 yr	1.819%	-2.0 32'ds	1.970%	2.935%	2.669%	2.969%		Prior: \$1.0B Actual: ---
10 yr	3.031%	-2.0 32'ds	3.234%	4.920%	3.981%	4.031%		
30 yr	3.999%	-14.0 32'ds	4.543%	6.950%				
							DJIA	10,085.18 66.90
							NASDAQ	2,170.75 11.28
							S & P 500	1,066.50 6.23

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

Hedge Funds Are 'Frozen in Headlights,' Limit Trading in Perilous Markets

July 8 (Bloomberg) -- Hedge-fund managers, Wall Street's best compensated and supposedly smartest investors, are dazed and confused. Reeling from the worst second-quarter performance in a decade, hedge funds have scaled back trading as they struggle to figure out where markets are headed amid sometimes vicious crosscurrents in stock, commodities and other markets, according to brokers and managers.

Today's Topic- A Modest Proposal: GNMA PAC PAYER

There is a lot of liquidity in the banking system these days. There are a lot of reasons for this, but probably the most important one is fear. Depositors, investors and bank portfolio managers are very apprehensive about the economic and financial future. Fannie Mae and Freddie Mac have received a lot of bad press, but because of their importance to the overall U.S. mortgage market, nothing definitive about their long term future has been addressed in the nearly complete 2,300 page financial regulation bill. "Too big to fail" has also not really been effectively addressed, along with many other issues.

A Bloomberg top story headline today says: "Fannie Mae, Freddie Mac Debate Begins as Taxpayers' Costs Mount". Here are the relative numbers and facts. FNMA and FHLMC have more debt outstanding than the U.S. Treasury, (FNMA and FHLMC have been in a U.S. Conservatorship since September 2008, making their implicit guaranty more explicit, since they are now owned by the U. S. and us taxpayers). GNMA bonds have always had the Full Faith and Credit guaranty of the U.S. Government. They also have the same zero % risk-based capital rating of the explicitly guaranteed U.S. Treasury securities. Ginnie Mae (GNMA) debt outstanding is small compared to FHLMC & FNMA, Treasuries, and the other implicitly U.S. guaranteed agencies, such as FHLB. There has been a big flight to quality, globally, into U.S. and GSE debt, as skittish bond buyers pay the highest prices and accept the lowest yields in a generation.

If you want to sell your conventional FNMA & FHLMC MBS, you will likely be pleased with bids you receive. If you have decided to buy only U.S. Treasuries or GNMA MBS pools or CMO's here is the Modest Proposal: A new issue GNMA PAC PAYER, 3% Cpn. @ 101 23/32; estimated average life of less than 3 years in the base case, estimated average life of < 5 years if we have an immediate rate shock of 300 basis points. The Bloomberg model rate shock, average lives and yields are shown below. Please call your investment officer with any questions you may have.

GNMA 2010-89 PA PAC band 350 PSA to 550 PSA (source: Bloomberg)

G2SF 5 N		5.290(358)2		UAC(UAH)AGE ASSUME		3% LEGAL HTY N/A ADVI<PAGE>		[350 550 7/10] NO Notes SS <de>	
ASSUMED	7/30/10:	71,016,750	next pay	8/20/10 (monthly)	20/260	CashFlows	7/7/10		
collateral	7/ 1/10:	71,016,750	rcd date	7/31/10 (19 Delay)	1stPrj	8/20/10	ASSUMED	collateral	
-NO History-	factor	1.000000000000	accrual	7/ 1/10- 7/31/10					
YIELD TABLE									
Very	3	132	155	225	495	1153	1376	1534	PSA
PRICE	32	PSA	PSA	PSA	PSA	PSA	PSA	PSA	PSA
DEAL: * Information is preliminary and subject to change.									
101-23	2.595	2.559	2.457	2.346	1.967	1.843	1.760		
AvgLife	4.85	4.44	3.57	2.95	1.84	1.64	1.53		
Mod Dur	4.40	4.06	3.32	2.78	1.77	1.59	1.48		
DateWindow	8/10-	8/10-	10/20/17	8/10-	8/10-	8/10-	8/10-		
Spread	+83/AL	+96/AL	+120/AL	+134/AL	+139/AL	+133/AL	+129/AL		
Preliminary cashflows based upon dealer representations. PROSPECTUS UNAVAILABLE.									
Treasury Curve - BGN 3.05 +									
0.19 0.29 0.62 1.00 1.81 2.48 2.02 4.00									