

The Pro Shop



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COMMON THEMES IN FINANCIAL CRISES OVER 800 YEARS

The recent global financial meltdown has spawned a plethora of books on financial and banking crises. If you browse Amazon.com, or visit the local Borders or Barnes and Noble, you will find no shortage of new books on the subjects. Some are excellent, some scholarly, some ordinary, and some not worth your time. Many titles are, of course, designed to catch your eye. A sampling of titles from the past three years: *The End Of Wall Street*; *A Failure Of Capitalism*; *The Banking Crisis Handbook*; *Financial Boom And Gloom*; *Too Big To Save?; Too Big To Fail*; *Senseless Panic: How Washington Failed America*; *Time For A Visible Hand*; *Hoodwinked*; *Sellout*; *The Death Of Capital*, etc., you get the idea.

The title to this month's letter refers to a bestseller authored by two well-known economists and academic researchers, Carmen M. Reinhart of the University of Maryland, and Kenneth S. Rogoff of Harvard University: *This Time Is Different* (Eight Centuries of Financial Folly). It takes a monumental effort to research 800 years of major financial crises in 66 countries. The book came out in September 2009, after seven years of intensive effort. There is really too much data for most investors, but the research is interesting and the text is very readable and fascinating.

The important messages are certainly understandable. To quote from the Preface of the book: "Our immersion in the details of crises that have arisen over the past eight centuries and in data on them has led us to conclude that the most commonly repeated and most expensive advice ever given in a boom just before a financial crisis stems from the perception that 'this time is different.' That advice, that the old rules of valuation no longer apply, is usually followed up with vigor. Financial professionals and, all too often, government leaders explain that we are doing things better than before, we are smarter, and we have learned from our past mistakes. Each time, society convinces itself that the current boom, unlike the many booms that preceded catastrophic collapses in the past, is built on sound fundamentals, structural reforms, technological innovation, and good policy." Does that sound familiar? The authors continue, "We hope that the weight of evidence in this book will give future policy makers and investors a bit more pause before next declare, 'this time is different.' It almost never is."

The book has been praised by some as the best explanation of the current global crisis, which Reinhart and Rogoff refer to as the "Second Great Contraction", after the 1930's. It is primarily a history book, without economist's normal attraction to analysis that is hypertheoretical. The author's credit numerous sources including Charles Kindleberger's 1978, *Mania's, Crashes And Panics*, which also emphasized the standard warnings of asset price inflation, rising leverage, large public and private deficits, and slowing economic growth, resulting in defaults, large wealth destruction, and other unpleasant effects.

The aftermath of banking crises involves a prolonged period of contraction in economic activity and puts significant strains on government resources. It is fortunate indeed that the U.S. dollar and Treasury financing have fared so well in 2010. If everyone wanted to sell our government bonds today, or devalue our currency, U.S. recovery prospects would be even more difficult than they are.

Robert W. Brickson
Senior Vice President

TAX EXEMPT

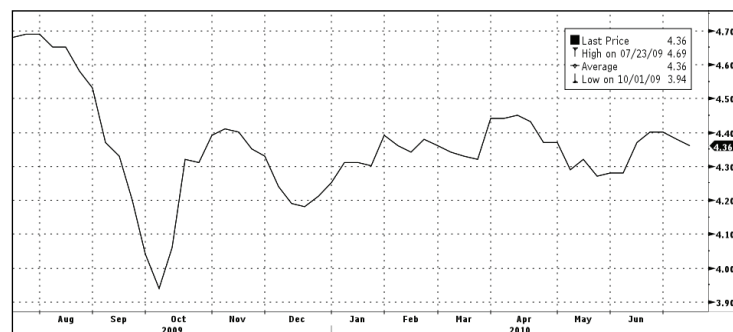
Municipal Bond Yields (Recent Issues)

	Aaa	Aa	A	Aaa BQ	Aa BQ	A BQ
1 year	0.31	0.56	0.91	0.61	0.66	1.07
5 year	1.52	1.83	2.11	1.69	2.11	2.52
10 year	2.90	3.31	3.61	3.35	3.40	3.81
15 year	3.82	4.15	4.51	3.93	3.98	4.39
20 year	4.09	4.51	4.90	4.39	4.44	4.85

The above figures represent approximately yields of recent general obligation offerings.

BQ - Bank Qualified

Bond Buyer Index AA2 20-Year General Obligations



Source: Bloomberg, L.P

TAXABLE

Money Market Yields

	Fed Funds	LIBOR	Treasury* Bills	Discount* Notes	LIBOR
	1 DAY		90 DAYS		
7/12/10	0.25	0.30	0.14	0.18	0.53
7/13/09	0.25	0.27	0.18	0.20	0.50
			180 DAYS		
		7/12/10	0.18	0.23	0.73
		7/13/09	0.25	0.30	0.97

Treasury Yields

	2 yr.	3 yr.	5 yr.	10 yr.	30 yr.
7/12/10	0.61	1.03	1.82	3.05	4.04
7/13/09	0.88	1.35	2.20	3.25	4.20

*Bond Equivalent Yield

Government Agency Yields

	2 yr.	5 yr.	10 yr.	30 yr.
7/12/10	0.73	2.05	3.25	4.40
7/13/09	0.95	3.00	3.75	4.80

Corporate/Mortgage Backed Yields

	Corporates Aaa / Aa			Mortgage Backeds			
	2 yr.	5 yr.	10 yr.	GNMA		FNMA / FHLMC	
				15 yr.	30 yr.	15 yr.	30 yr.
7/12/10	1.84	2.13	4.44	2.77	3.56	2.85	3.53
7/13/09	2.80	4.75	5.85	3.44	4.26	3.66	4.34

Market Data

Selected Indicator Watch

	DJIA	Gold / \$ oz.	Oil / \$ bbl.	CRB Index	Yen / \$	\$ / Euro
7/12/10	10,200	1,200.00	76.00	260.00	88.50	1.26
7/13/09	8,230	913.00	59.20	232.00	92.60	1.39

U.S. Dollar Index 7/12/06 to 7/12/10

Source: Bloomberg, L.P



Government Calendar

Monday, July 19	Estimated \$60.0 Billion	3 & 6 Month U.S. Treasury Bill Auctions
Monday, July 26	Estimated \$60.0 Billion	3 & 6 Month U.S. Treasury Bill Auctions
Tuesday, July 27	Estimated \$25.0 Billion	1-Year U.S. Treasury Bill Auction
Tuesday, July 27	Estimated \$40.0 Billion	2-Year U.S. Treasury Note Auction
Wednesday, July 28	Estimated \$38.0 Billion	5-Year U.S. Treasury Note Auction
Thursday, July 29	Estimated \$30.0 Billion	7-Year U.S. Treasury Note Auction

Municipal Bond Offerings

Moody's/S & P	Description	State	Amount	Coupon	Maturity	YTC	YTM
Aa3 / NR REV / BQ ASSURED G	WASHBURN UNIV-REF	KS	470,000	2.00%	7/1/2012		0.95%
NR / NR REV / BQ	JEFFERSON WTR 2-REF-A Cusip: 473180fa0	MO	270,000	4.30%	1/1/2017	2.00%	3.35%
Aa3 / NR REV / BQ ASSURED GTY	WASHBURN UNIV-REF Cusip: 937220cs8	KS	435,000	2.70%	7/1/2017		2.65%
NR / NR REV / BQ	MCCLAIN ECON-PURCELL Cusip: 57947pbr0	OK	230,000	3.75%	9/1/2017	3.75%	3.75%
NR / NR REV / BQ	MCCLAIN ECON-PURCELL Cusip: 57947pbs8	OK	200,000	4.00%	9/1/2018	4.00%	4.00%
A1 / NR GO / BQ	NEWTON-REF/IMPT-A Cusip: 652861g66	KS	250,000	3.50%	9/1/2020		3.15%
A1 / NR GO / BQ	NEWTON-REF/IMPT-A Cusip: 652861g74	KS	150,000	3.40%	9/1/2021	3.35%	3.35%
NR / A+ COP / BQ	TANEY CNTY WTR #3 COP Cusip: 87539was5 Water Rev, COP	MO	50,000	4.75%	7/1/2027	4.96%	4.80%
Aa2 / AA REV / NBQ	KS DEV-TXB-O2-KS PROJ Cusip: 485429an4 TAXABLE	KS	500,000	5.35%	5/1/2024	5.35%	5.35%
Aa2 / AA REV / NBQ	KS DEV-TXB-O2-KS PROJ Cusip: 485429ap4 TAXABLE	KS	285,000	5.50%	5/1/2025	5.50%	5.50%
NR / AAA GO / NBQ PSF-GTD	FORNEY ISD CAB-SCH Cusip: 346424zf4	TX	585,000	0.00%	8/15/2025	3.70%	4.57%

Municipal New Issue Calendar

Moody's	S & P	Amount	Issuer	St	Description	Bank	Maturities	Time of Sale
<u>Monday, July 19</u>								
---	AA-	*45,000	Pasadena	CA	Elec Rev Ref	---	---	9:30 am P
---	---	1,625	Mattawan Cons Sch	MI	Sch Bldg	BQ	11-16	2 pm E
---	---	*1,005	Fergus Falls	MN	GO Cap Imp	BQ	10-29	11:30 am C
---	---	*2,320	Ham Lake	MN	GO Cap Imp	---	12-26	10:30 am C
---	---	*1,375	Hugo	MN	GO Cap Imp	---	11-18	11:30 am C
---	---	*4,915	Lake City ISD #813	MN	GO Sch Bldg	---	13-31	12 pm C
---	---	500	Sherburn	MN	GO Permanent Imp	---	12-26	11 am E
---	---	*1,785	Willmar	MN	GO Imp	---	12-21	11 am C
<u>Tuesday, July 20</u>								
---	---	2,725	Mason City	IA	GO	BQ	12-21	1 pm C
A1	---	*4,785	Ottumwa	IA	GO Cap Loan	BQ	11-14	11 am C
---	---	*14,165	Lenexa	KS	GO	---	11-30	11 am C
---	---	*22,100	Lenexa	KS	GO Ref	---	13-18	11 am C
Aa2	---	*12,415	Warren Co SD Fin Corp	KY	Sch Bldg Rev (Tax)	---	11-30	11:30 am E
---	---	5,800	Westport (Town)	MA	Fire Station	BQ	11-29	11 am E
---	---	1,500	Las Vegas CSD #2	NM	GO Sch	BQ	11-18	11 am M
---	---	380	Custer Co ISD #5	OK	Bldg Auth	BQ	12	11:45 am C
---	---	*6,195	Provo	UT	GO Library Ref	BQ	11-14	9 am M
---	A+	1,125	Watertown	WI	GO Prom	BQ	---	10 am C
---	A+	1,305	Watertown	WI	GO Corp Purp	BQ	---	10 am C
<u>Wednesday, July 21</u>								
---	---	3,305	Mission	KS	GO	---	11-20	10 am C
---	---	1,770	Sandusky Comm Schs	MI	GO	BQ	11-20	2 pm E
---	---	*6,350	Warren	MI	Ref	BQ	11-16	11 am E
---	---	*7,000	Chisago County	MN	GO Cap Imp	BQ	14-26	10 am C
---	---	1,800	Mosquero Muni SD #5	NM	GO Sch Bldg	BQ	11-21	11 am M

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