PORTFOLIO MANAGER's REPORT

Wednesday July 21, 2010 8:45 AM

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CURRENT OFFERING YIELDS - Wednesday: 07/21/2010 8:45 AM

	Trsy (Last Price)	Change (From Yest)	Agcy NC (Bullets)	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)
3 mo	0.150%	+ 0.50 bp's	0.143%	0.526%		
6 mo	0.191%	+ 0.20 bp's	0.204%	0.541%		
12 mo	0.248%	+ 0.0 32'ds	0.382%	0.662%		
2 yr	0.576%	UNCH	0.753%	1.132%	1.476%	1.526%
3 yr	0.943%		1.134%	1.672%	1.943%	2.043%
5 yr	1.676%	+ 0.5 32'ds	1.895%	2.753%	2.526%	2.826%
10 yr	2.935%	+ 0.5 32'ds	3.211%	4.738%	3.885%	3.935%
30 yr	3.964%	+ 3.5 32'ds	4.580%	6.950%		

TODAY'S ECONOMIC DATA

21-Jul	MBA Mortgage Applications Prior: -2.9% Actual: 7.6%	
DJIA	10,229.59	-0.37
NASDAQ	2,217.73	-4.76
S & P 500	1,084.25	0.77

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 Note Yields Are Near 3-Week Low Before Bernanke Testimony

July 21 (Bloomberg) -- Ten-year Treasury note yields traded near a three-week low on speculation Federal Reserve Chairman Ben S. Bernanke will tell lawmakers that borrowing costs will stay near zero. Yields on two-year notes reached the fourth record low in five days as the U.S. prepared to announce tomorrow a round of two-, five- and seven-year note sales next week that is forecast to be smaller in size for the third straight month. Bernanke will give his semi-annual report on monetary policy to the Senate Banking Committee today and will testify at the House Financial Services Committee tomorrow.

Today's Topic- Know Your Duration and What It Means to Your Investment Portfolio

We are all anticipating higher rates. None of us know exactly when that will happen, but we all know that rates will eventually rise. It is imperative that you understand the risk associated with higher rates for your investment portfolio. The use of duration is the best analytical tool to quantify that risk.

Duration shows the price sensitivity of your bonds given changes in interest rates. The higher the duration, the more price sensitivity. The lower the duration, the less price sensitivity.

The **duration** of your bond portfolio measures its price sensitivity relative to interest rate movements expressed as a number of years. The reason for expressing this sensitivity in years is that the time that will elapse until a cash flow is received allows more interest to accumulate. Therefore the price of a bond with long term cash flows has more interest rate sensitivity than a bond with cash flows in the near future. Because of this relationship, duration is calculated as the weighted average number of years to receive each cash flow. A good way to demonstrate this is with zero coupon bonds. Because zero coupon bonds don’t have cash flows, the duration is equal to the number of years to the maturity date. A bond with cash flows will have a shorter duration than one without cash flows assuming the same maturity date.

We suggest you use duration to calculate the percentage gain or loss one can expect given a change in interest rates. Duration is approximately equal to the percentage change in price for a given change in interest rate per year. For example, duration is the approximate percentage by which the value of a bond or portfolio will fall for a 1% (per year) increase in market interest rate. Therefore, a bond portfolio with a duration of 4 would fall approximately 4% in value if interest rates increased 1% in a one year period. We suggest you calculate your potential loss given various rising interest rate scenarios to ensure you are comfortable with the current positioning of your portfolio. Call your Country Club Bank Capital Markets representative to discuss further.