



PORTFOLIO MANAGER'S REPORT



Tuesday August 03, 2010 9:11 AM

Kansas City Office: (800) 288-5489

Oklahoma City Office: (866) 288-8823

Tulsa Office: (800) 288-1956

CURRENT OFFERING YIELDS - Tuesday: 08/03/2010 9:11 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-Aug	Personal Income Prior: 0.4% Actual: 0.0%
3 mo	0.130% - 0.60 bp's	0.127%	0.511%			3-Aug	Personal Spending Prior: 0.2% Actual: 0.0%
6 mo	0.191% - 0.50 bp's	0.176%	0.511%			3-Aug	Factory Orders Prior: -1.4% Actual: -1.2%
12 mo	0.253% -0.5 32'ds	0.362%	0.571%				
2 yr	0.522% + 2.0 32'ds	0.686%	0.889%	1.322%	1.342%		
3 yr	0.865%	1.056%	1.415%	1.665%	2.215%		
5 yr	1.551% + 6.0 32'ds	1.798%	2.465%	2.401%	3.131%	DJIA	10,608.23 -66.15
10 yr	2.892% + 6.0 32'ds	3.120%	4.677%	3.692%	3.892%	NASDAQ	2,275.25 -20.11
30 yr	4.018% + 19.0 32'ds	4.637%	6.950%			S & P 500	1,117.70 -8.16

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 Two-Year Note Yield Drops to Record on Fed Bond-Buying Outlook

Aug. 3 (Bloomberg) -- Treasuries rose, pushing the two-year note yield to a record low, on speculation the Federal Reserve may be forced to resume buying bonds to keep the economic recovery on track. The 10-year note yield dropped to the lowest level in almost two weeks as government reports showed consumer spending and personal incomes unexpectedly stagnated in June. The U.S. economy lost jobs for a second consecutive month in July, according to a Bloomberg News survey of economists before the Labor Department's Aug. 6 payrolls report.

Today's Topic- Premium Capture: More is Better...Take It!

Regular readers know we have discussed taking gains in your MBS portfolio many times this year. The story is even more compelling today. MBS yield spreads have achieved new "tightness" as prices have risen dramatically. According to data compiled by Bloomberg, FannieMae's current coupon 30 year fixed rate mortgage bonds price at an historically narrow 58 basis points over the 10 year Treasury. Compare today's spread to the 59bps witnessed back on March 29th when the Federal Reserve ended their MBS purchase program which totaled \$1.25 trillion. Wow! So have you taken advantage of this market premium and sold MBS into this strength?

If the answer is "no" it's probably because the landscape of relatively low yielding reinvestment opportunities is not compelling. We suggest you take a harder look. For the reality of the situation is:

- 1) Regardless of whether or not you opt to capture the market premium, your MBS are prepaying at accelerating speeds and leaving you with the same pile of funds to reinvest that you might think you're forestalling by not selling the bonds now. Do you prefer to capture these gains today or "do nothing" and collect all that prepaid principal at PAR?
- 2) To the extent that you opt for the later, you'll needlessly be leaving significant dollars on the table.

The Bloomberg screen below illustrates prepayment history for a FNMA 20YR 5.50% coupon MBS pool issued 8/1/06. One month CPR prepay speeds and attendant principal dollar amounts from 2008 – 2010 are chronicled. Note that the highest one month CPR in 2008 was 28.1. Yet, in 2009 and 2010 nine of 19 months had higher prepayment speeds than the 2008 peak.

In dollars and cents, it goes this way: For an original face value of \$5,000,000 of the cited pool the cost of "doing nothing" could be just over \$43k by year end. \$557,351 of principal prepaid in the first six months of 2010. Keeping that pace constant and looking forward to December, at today's market price of 107.750 you would give up \$43,194 of gains (current principal X market price...vs...current principal X prepaid at par).

Principal: \$ 557,351
(Mkt Price – PAR): 7.75 points
Foregone gain: \$ 43,194

Reinvestment options will be discussed in the next two PMR's. Thank you for your time!

Mtge **PDI**

MBS POOL HISTORY

Agency FN WAC 6.151 Issuer Multiple Pool State %CurBal
 Pool 256411 WAM 188 Coupon 5.500 Issued 08/01/06 CA 10%
 CUSIP 31371MYG6 WALA 48 Maturity 09/01/26 NY 9%
 Generic FNCT 5.5 2006 Amort **Level Pay** Orig Amt **5,000,000.00** TX 8%

Date	2008		2009		2010	
	1mo CPR	Principal	1mo CPR	Principal	1mo CPR	Principal
Jan	19.2	88,006.40	0.3	11,202.95	25.1	67,072.80
Feb	8.5	42,276.45	18.6	73,253.00	21.1	54,935.65
Mar	14.8	67,164.80	35.1	138,613.25	35.5	92,680.40
Apr	28.1	124,166.90	63.8	293,353.20	69.1	220,155.35
May	17.3	73,988.75	39.4	139,861.00	28.7	63,880.65
Jun	20.9	87,547.55	15.3	50,748.50	27.2	58,626.15
Jul	9.7	43,119.00	53.2	193,599.00	40.1	87,400.95
Aug	14.3	59,498.90	39.9	125,441.30		
Sep	0.3	10,874.30	21.2	60,693.25		
Oct	5.4	27,634.55	15.4	44,273.35		
Nov	0.4	11,338.05	8.1	25,900.55		
Dec	4.7	25,077.55	24.0	65,540.85		

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 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2010 Bloomberg Finance L.P.
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