PORTFOLIO MANAGER's REPORT

Thursday August 05, 2010 8:41 AM

Kansas City Office: (800) 288-5489
Oklahoma City Office: (866) 288-8823
Tulsa Office: (800) 288-1956

CURRENT OFFERING YIELDS - Thursday: 08/05/2010 8:41 AM

	Trsy (Last Price)	Change (From Yest)	Agcy NC (Bullets)	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)
3 mo	0.145%	UNCH	0.130%	0.420%		
6 mo	0.188%	UNCH	0.175%	0.435%		
12 mo	0.249%	-0.2 32'ds	0.335%	0.526%		
2 yr	0.546%	+ 1.0 32'ds	0.681%	0.859%	1.346%	1.366%
3 yr	0.893%		1.039%	1.394%	1.693%	2.243%
5 yr	1.586%	+ 1.0 32'ds	1.756%	2.465%	2.436%	3.166%
10 yr	2.910%	+ 1.0 32'ds	3.095%	4.647%	3.710%	3.910%
30 yr	4.035%	+ 11.0 32'ds	4.666%	6.950%		

TODAY'S ECONOMIC DATA

5-Aug	Initial Jobless Claims Prior: 457K Actual: 479K	
5-Aug	Continuing Claims Prior: 4565K Actual: 4537K	
5-Aug	ICSC Chain Store Sales YoY Prior: 3.0% Actual: ---	
DJIA	10,637.06	-43.37
NASDAQ	2,294.03	-9.54
S & P 500	1,121.44	-5.80

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 Advances as Report Shows Initial Jobless Claims Rose

Aug. 5 (Bloomberg) -- Treasury 10-year notes advanced after a government report showed U.S. initial jobless claims unexpectedly increased last week, adding to evidence that the U.S. economic recovery is stalling. The added yield investors demand to hold 10-year notes instead of 2-year debt narrowed as investors reduced inflation expectations before the Labor Department's payrolls report tomorrow. The possibility of deflation and another recession in the U.S. is 25 percent, according to Mohamed A. El-Erian, chief executive officer at Pacific Investment Management Co.

Today's Topic- Cash is (Still) Not For Kings

"Jobs are the key to America's future." This statement has never been more true than it is right now. With unemployment figures looming tomorrow, this week should give us a good insight to where rates will head in the next month. If today's weekly jobless claim number is any indication, things are going nowhere for quite some time.

Bond portfolio managers aren't eager for the low yields offered in high grade fixed income markets. But they're even less enthusiastic about sitting in cash. Thus most are on the prowl for defensive bonds which provide greater than cash yields in structures which are expected to decrease comparatively less than similar maturity bonds when rates rise. The most common defensive plays are:

1) Cushion Callables
2) 1x only callables
3) Canary Step Ups
4) Multi-steps
5) ARMs (hybrid and plain vanilla)

Another, less prolific structure, is the "fixed to floating" agency note. These agency debentures are similar, in concept, to Hybrid ARMs. They feature an initial fixed coupon, then an adjustable rate profile with certain caps. In the current market record low yields are achieved nearly weekly so it's been difficult to acquire bonds capable of covering even the cost of financing them. Yet the fixed to floating structure offers an initial coupon which is many times the multiple of money market/cash yields. The FHLB issue cited below begins at 1.75% for three years (+80 to 3yr bullets) then floats periodically @ 3month LIBOR + 250bps (with caps) if not called - a defensive play with reasonable yield (by comparison) from the start.

Please see the details below and contact your Investment Representative here at Country Club Bank Capital Markets with orders/commentary/questions. Thank you for the opportunity to be of service.

FHLB 1.75% Coupon Due 8/26/20 Callable Beginning 11/26/10 Quarterly @ PAR to Settle 8/26/10

-Quarterly Call...Quarterly Payment...Quarterly Reprice(after 3YR Fixed Period)
-1.75% Fixed for 3 Years
-3Mo Libor +250 Capped @ 4.00% for 2 Years
-3Mo Libor +250 Capped @ 5.00% for 2 Years
-3Mo Libor +250 Capped @ 6.00% for 2 Years
-3Mo Libor +250 Capped @ 7.00% for 1 Year
-**3Mo Libor Today = 0.424%