PORTFOLIO MANAGER's REPORT

Thursday August 26, 2010 8:47 AM

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CURRENT OFFERING YIELDS - Thursday: 08/26/2010 8:47 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%	UNCH	0.135%	0.389%		
6 mo	0.186%	UNCH	0.204%	0.450%		
12 mo	0.252%	-0.2 32'ds	0.363%	0.571%		
2 yr	0.516%	UNCH	0.673%	0.874%	1.316%	1.336%
3 yr	0.811%		0.974%	1.319%	1.611%	2.161%
5 yr	1.402%	UNCH	1.576%	2.208%	2.252%	2.982%
10 yr	2.545%	UNCH	2.746%	4.283%	3.345%	3.545%
30 yr	3.577%	-3.0 32'ds	4.180%	6.829%		

TODAY'S ECONOMIC DATA

26-Aug	Initial Jobless Claims Prior: 500K Actual: 473K	
26-Aug	Continuing Claims Prior: 4478K Actual: 4456K	
26-Aug	Mortgage Delinquencies Prior: 10.06% Actual: ---	
DJIA	10,075.34	15.28
NASDAQ	2,147.59	6.05
S & P 500	1,058.39	3.06

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

Treasuries Erase Advance as Initial Jobless Claims Drop More Than Forecast

Aug. 26 (Bloomberg) -- Treasuries erased their gain after a government report showed initial jobless claims dropped last week more than economists forecast, reducing concern that the U.S. economic recovery is stalling. Seven-year notes were little changed before the government's $29 billion auction of the securities today. The 10-year note yield touched a 19-month low yesterday after reports showed new-home sales unexpectedly tumbled in July and orders for durable goods rose less than economists forecast.

Today's Topic- Don't Let PERFECT Be the Enemy of the GOOD!

What investments work in this environment?

This is a question we get a lot, and certainly the answers will be different for each institution, but here is a security we think this might be a fit for some portfolios:

FHLB 2.00% Fixed to Floater, fixed @ 2.00% for 3.5 years then Floating @ 3M Libor + 2.50% with Caps ranging between 4.00% and 8.00%. Final maturity in 12 Years. See info Below

Some have asked, why would I want to own that bond? Here is how we look at this investment:
1. 2.00% Yield on a bond priced at PAR; Quarterly call. Not Bad.
2. Floats @ 3M LIBOR +2.50% after 3.50 Years. So if it makes it past the Fixed Rate period, we have an asset that gives us some potential for coupon appreciation down the road.
3. If Rates INCREASE dramatically, it could CAP out, but where else would we find 4.00% today, even if that does happen? In an asset that has an increasing CAP, potentially to 8.00%?
4. If Rates INCREASE dramatically, it would be "underwater". This is true, but it is also true of any other investment we look at in today's environment. This will likely lose less value that a traditional Fixed Coupon Investment, or even many Step Up Bonds.
5. If rates increase, but stay below the CAP, you have a SHORT Duration Asset, with relatively high returns as this will re-price every 3 months at LIBOR + 250.
6. If rates decline, there is the potential for the bond to be called during the Fixed Coupon period, but we are still yielding 2.00% for the time we have them on the books.

There are no PERFECT investments in this environment, but there are a few gems to pluck if we are willing to search for the GOOD ones.

Happy Hunting.