



Capital Preservation &amp; Income

# Caprin Asset Management, L.L.C.

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## Recovery Signals Appear, Too Soon to Celebrate

President Obama characterized the 3-day G-8 meeting that took place during the second week of July. A wide array of topics was discussed, but none as anticipated as the current state of the global economy. World leaders are pouring money in to their struggling economies and some are beginning to see

is evolving speculation of improved economic conditions by the end of 2010. As that happens, the market will force interest rates higher, anticipating reduced monetary and fiscal accommodation. But for now, the Fed and other central banks continue to target very low interest rates.

The Federal Open Market Committee left

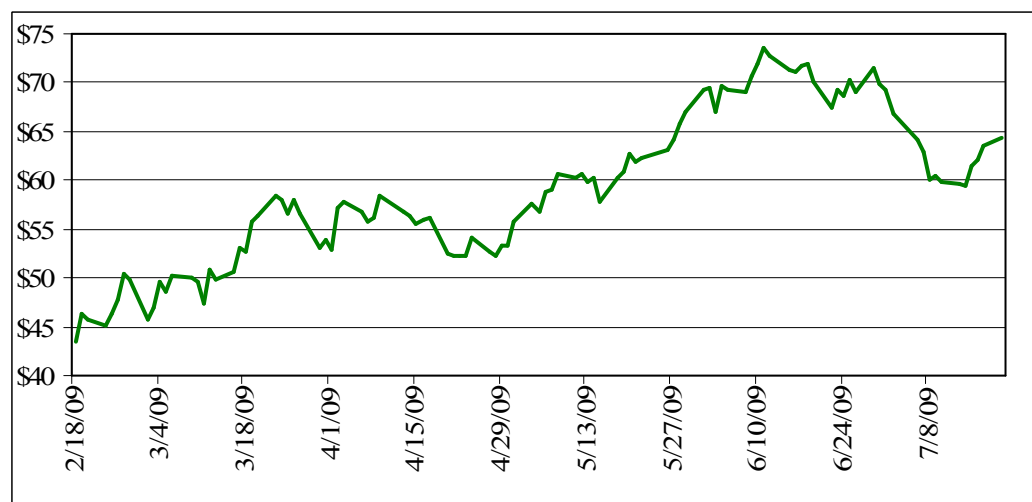


Figure 1. Oil prices trending higher since the February 18, 2009 low

Source: Bloomberg

signs of recovery. However, these statesmen and politicians stressed one important message: We are not out of the woods yet.

World leaders fear a “double-dip” recession and warn that becoming overly optimistic and ignoring current warning signs would be unwise. Job loss remains commonplace worldwide, energy prices continue to creep upwards, and bank lending is still constrained. The consensus suggested economic stimulus is warranted until the recession has passed with certainty. The good news is economists are seeing some positive signals and there

its Fed Funds target rate unchanged at the 0-0.25% range at the June 24<sup>th</sup> meeting. Wall Street eagerly awaited the Fed’s statement hoping it would definitively discuss the asset purchasing plan and address inflation or deflation risks. For the most part, the Fed remained silent on its purchasing plan and only mentioned a slight risk of inflation.

Chairman Bernanke’s refusal to paint a more definitive picture of future Federal Reserve monetary policy combined with the G-8’s cautious economic assessment helped push fixed income yields lower, and thus prices higher. Since June 15<sup>th</sup>, the AAA 10-Year G.O. Municipal Bond Index

### Highlights:

- U.S. ECONOMY SHOWING SOME SIGNS OF TRACTION
- VOLATILITY LIKELY AS IMPACT OF POLICY INITIATIVES AND NEW PROGRAMS UNFOLDS
- CAPRIN MAINTAINING TARGET DURATION CLOSE TO 5 YEARS, NEUTRAL TO TARGET INDEX
- CAPRIN CONTINUES TO FOCUS ON HIGH-QUALITY POSITIONS AND ON YIELD-PRODUCING SECTORS IN 1- TO 5-YEAR MATURITIES

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has rallied over 7% as of this newsletter's publication. As a result, Caprin's National and State-Specific portfolios have also enjoyed positive returns. Since the beginning of 2009, the Caprin State-Specific Composite has a return of 3.71% (net of fees) versus the Barclay's 7-Year Municipal Bond Index's return of 3.05%

## Caprin Strategy

Caprin continues to emphasize a measured approach to portfolio management as signs of economic stabilization are tempered with ongoing risks. Patience and purposefulness are key elements in setting strategy while the U.S. economy seeks a foundation for recovery. Our approach seeks capital preservation for client portfolios while maximizing yield within acceptable risk parameters.

Caprin's Investment Committee decided at the end of June to maintain a duration target neutral to our benchmark – roughly 5 years. The current yield curve remains historically steep and continues to provide investors with attractive return opportunities in intermediate maturities, relative to the low yields of the shortest maturities and the higher risk of the longest maturities.

Managing fixed income portfolios for capital preservation and income encompasses many strategic elements. Our approach focuses on assessing market-driven investment opportunities relative to the desired portfolio risk and return characteristics. The current environment emphasizes portfolios that are high in liquidity, providing us flexibility to enhance our proactive management efforts as markets evolve. Caprin continues to purchase high-grade, well-regarded bonds with maturities five years and longer to achieve these goals. Furthermore, owning highly rated municipalities and essential purpose projects allows client portfolios to be postured defensively against negative momentum that may enter the market and to benefit from the preference for higher relative credit quality.

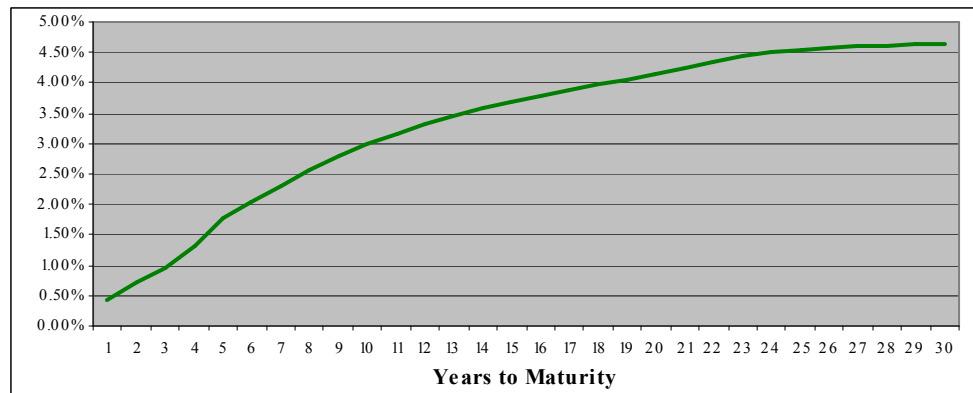


Figure 2. Muni Bond Yields from 1- to 30-Year Maturities as of July 20, 2009

Source: MMD

Caprin remains focused on enhancing portfolio income levels by investing in bonds with higher yields that also contribute to our overall objectives. Yield opportunities are generated at attractive points along the yield curve and from select healthcare and utility issuers with sound financials in preferred geographic locations. To minimize the potential for event risk while adding incremental yield, these purchases focus on 2009-2014 (shorter) maturities and are assessed for acceptable risk parameters prior to purchase. Portfolio risk profiles also benefit from purchases of higher coupon bonds that should generate relatively better performance in a rising rate environment.

All of us have experienced a historic period of market stress. Throughout that time, Caprin portfolios have provided a cushion of stability relative to other investment choices. We continue to look to the future, adjusting our strategies to accomplish our investment mandates.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.