



Capital Preservation & Income

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Emergency Ends, Recovery Begins

Over the past several weeks, the prospect of an approaching recovery has invigorated the equity markets and pushed the Dow Jones Industrial Average above 9000 points for the first time since January 6th. We have seen certain domestic economic data slow the trend of deterioration and some provide signs of improvement, leading many market participants to believe the worst may have passed. It

stressing disposable income in American households. Consumers have meaningfully increased their savings in the wake of the recession's turmoil – and they likely will continue to do so – preventing a quicker economic recovery. Consumer confidence will solidly turn higher only after personal financial security has been restored.

This recession has been branded with

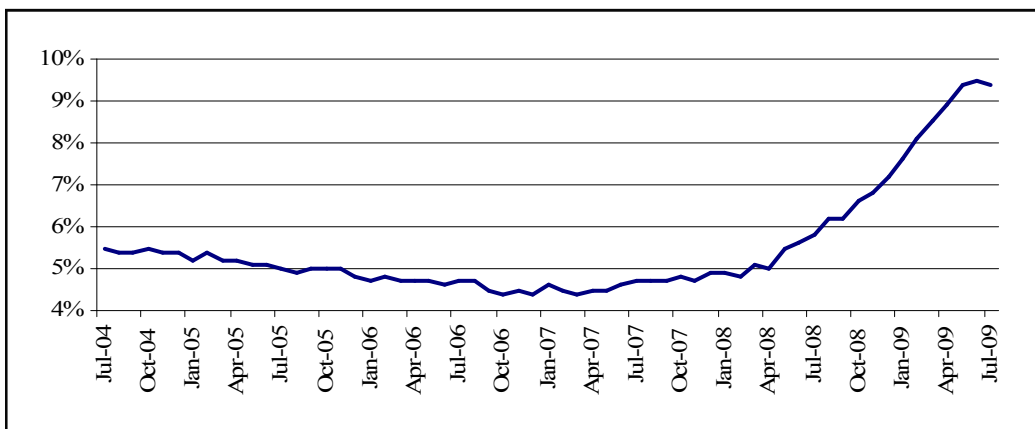


Figure 1. Monthly unemployment rate over the past 5-year span

Source: Bloomberg

seems the domestic economy might be working toward a protracted but temperamental recovery process over the coming 12 to 24 months.

While improving economic signals are encouraging, several important facets will require time to recover to historically normal levels. For instance, the national unemployment rate, which has crept to 9.4%, continues to rise, though at a slowing pace. As long as the labor markets continue to struggle, U.S. consumer spending will likely remain anemic. Furthermore, with the job environment and outlook so tenuous, employers are not pressured to increase wages, further

financial stress on many fronts including equity and real estate wealth destruction and massive amounts of leverage. Just as businesses needed to retool during the last recession, individuals—the backbone of the U.S. economy—need to repair their balance sheets and cash flow. Challenges are particularly evident with home prices down 16% since last year. More than 13% of homeowners are estimated to be either delinquent in their mortgage payments or in foreclosure. Low mortgage rates and Obama's tax-credit for first-time homebuyers seem to be spurring the real estate market off the lows of last year, but there is more work to be done.

Highlights:

- U.S. ECONOMY SHOWING SIGNS OF LIFE, KEY ECONOMIC INDICATORS STILL NEED MORE TIME
- CAPRIN FORECASTING A VOLATILE RECOVERY PERIOD
- CAPRIN SLIGHTLY SHORTENING TARGET DURATION TO 4.75 YEARS
- WE CONTINUE TO FOCUS ON HIGH-QUALITY POSITIONS AND ON YIELD-PRODUCING SECTORS IN 1- TO 5-YEAR MATURITIES

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The Federal Open Market Committee reaffirmed its commitment on August 11th to maintain low rates for an “extended period”, leaving the 0.00-0.25% Fed Funds rate unchanged. The statement stressed the very modest risk of inflation from the Committee’s perspective, predicting that the aggressive fiscal and monetary initiatives should maintain price stability even when economic growth returns. The Fed expects positive domestic growth in the second half of 2009, but not at a rate that would justify a change in Fed policy. It is important to note that credit remains tight for individuals and businesses, and Fed Chairman Bernanke has stressed the return of improved credit facilities will be necessary for a sustained recovery.

Caprin Strategy

Municipal bonds have produced strong positive returns year to date, and market interest rates have moved closer to the lower end of the 2009 range. This performance in the face of higher trending Treasury yields and improving economic statistics suggests that municipal bond yields might be poised to move higher as the recovery takes hold. Therefore, on August 10th, Caprin’s investment committee lowered the intermediate municipal portfolio duration target from 5.0 years to 4.75 years.

This .25-year reduction was approved to allow portfolio managers flexibility toward a more defensive posture. Our goal in managing client accounts is to anticipate reasonably future events and position portfolios accordingly.

In the environment of potentially higher interest rates, capital preservation is improved with shorter maturities and lower portfolio duration. We all agree it is impossible to time perfectly interest rate changes, so our plans are based on taking measured, defensive steps toward addressing the most likely risks on the investment horizon.

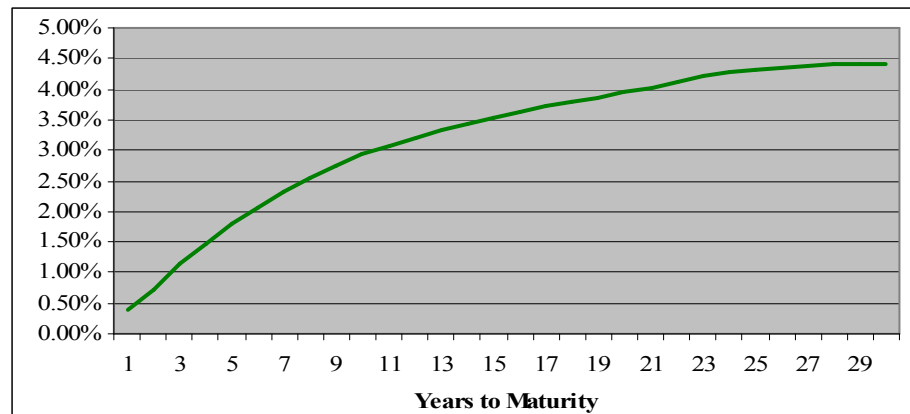


Figure 2. Muni Bond Yields from 1- to 30-Year Maturities as of 08/29/2009 Source: MMD

Though the Fed continues to expect lower levels of inflation from traditional sources such as

wage pressure, supply constrained commodity prices, or excess demand, financial markets could possibly demand higher interest rates should our financial deficit continue to expand uncontrollably. In addition, history tells investors that all markets look ahead, and interest rate trends will likely begin to signal recovery in advance, causing yields to increase as the requirements of a lasting recovery take hold.

The prospects for our domestic economy contain uncertainties for investors in all asset classes. No roadmap exists given the unprecedented events of the past year. Massive federal action might have been the only means to keep us from economic disaster. But what are the longer term consequences of those initiatives? We believe that the guiding principle for bond investing remains a conservative one – one that seeks to reduce risk in client portfolios. We continue to evaluate the dynamics of the economic and financial recovery, and to modify strategies as necessary. Our Capital Preservation and Income philosophy strives to position client assets from undue principal fluctuation and to provide a reliable source of income. We will continue to rely on our fundamental values and strategies to align portfolios consistent with your longer-term financial goals.

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.