Caprin Asset Management, L.L.C.

Caprin Asset Management's disciplined investment process is dedicated to helping investors navigate the complexities of the fixed income markets by preserving and enhancing investor wealth through thoughtfully constructed, professionally managed portfolios.

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Caprin News

Caprin is pleased to announce that Melinda Ross Lestyan has joined our team effective June 12, 2006. Melinda has extensive experience managing both national and state specific municipal bond funds and separately managed portfolios for high net worth individuals. Melinda's expertise will increase the depth of our team and provide additional resources for successful growth. Focusing on her experience and strengths, Melinda will be the portfolio manager for state specific, "southern" portfolios as well as national portfolios.

Prior to joining Caprin, Melinda served as Vice President and Regional Fixed Income Portfolio Manager at Bank of America with primary responsibilities of managing large, high net-worth portfolios of $20MM or more. Also at Bank of America, Melinda managed approximately $1.7 billion in municipal fixed income for the Intermediate Common Trust Fund, the Tennessee and Texas Common Trust Funds, the Nations Short Term Municipal Bond Fund and the Nations Intermediate Municipal Bond Fund. Additionally, Melinda managed the Nations Tennessee Intermediate Municipal Bond Fund, the Nations Texas Intermediate Municipal Bond Fund, the Nations Virginia Intermediate Municipal Bond Fund, the Nations Maryland Municipal Bond Fund, the Nations Tennessee Municipal Bond Fund and the Nations Virginia Municipal Bond Fund.

Before moving to Bank of America, Melinda worked as a Fixed Income Trader and Investment Adviser for Central Fidelity Bank and for Wheat, First Securities as Assistant Vice President/Municipal Liaison, a Branch and Operations Training Specialist and an Auditor. Melinda graduated with a B.B.A. and a B.A. from the University of Mississippi. Feel free to call Melinda and welcome her to our team at (804) 521-7953 x313.

Market Commentary

During the second quarter, we continued with many of the same themes we discussed regarding the first quarter: Federal Reserve Board action, high commodity prices, rising inflation expectations and a slowing housing market. The quarter's most significant event was the Fed's 17th consecutive hike of their target rate, bringing it to 5.25%. Officials left the door open for further rate hikes but stated that future policy decisions will depend mostly upon new economic data – specifically, what that data implies about future inflation pressures. No doubt remains that the housing market is cooling, and with it consumer spending. Moderation in economic growth should limit inflation pressures over time, as the Fed has said, but we all feel inflation risks remain. Given these themes and the Fed's indicated desire to pause and assess the impact of two years worth of rate hikes, we believe the economy is getting closer to a turning point, which is why each data announcement has been greeted with increasingly volatile changes in interest rates and stock prices.

Looking toward the end of the year we see a bias toward higher long-term rates globally. Both the Bank of England and the European Central Bank raised their

benchmark rates in the second quarter, and the Bank of Japan said it will no longer maintain ZIRP (zero interest rate policy). This bias toward higher rates could slow global growth, leading to fewer foreign purchases of US Government debt. And with less demand for US bonds globally, interest rates will have to rise to entice buyers. Energy prices remain a major wildcard in the outlook for long-term interest rates. Higher oil prices are approaching the fine line where they are considered either inflationary or capable of tipping the economy into a recessionary slowdown.

Balancing the scales of heightened inflation pressures and a slowing economy has us considering external events that may cause interest rates to fall. Three primary areas could produce these results: First is a significant economic slowdown, causing the stock market to retreat. Second is the likelihood for continued conflict in the middle-east and a potential expansion of that conflict to nuclear capable nations. Third is related to natural disasters; hurricane season is upon us, and recent experiences keep these thoughts close to our hearts. Any or all of these events could cause a flight to quality into the US Treasury market, creating more demand and lower interest rates.

The Municipal Market

Having significantly outperformed their taxable counterparts during the first quarter, Municipals were expected to narrow the performance gap during the quarter just ended. The trend actually continued with most municipal bond accounts posting positive returns and long taxable securities continuing to lose value, as indicated in the following chart:

Merrill Lynch Index	2Q 06	1H 06
US Domestic Master	-0.13	-0.78
US Treasury/Agency 10+ Yrs	-1.24	-4.59
Municipals, 1-12 YRS	0.27	0.28

The relationship of municipal yields to taxable yields is important to generating high after-tax returns. In June, the yield relationship between municipal bonds and taxable bonds was at relative low due to a seasonally large amount of Municipal maturities, redemptions, and coupon payments 'chasing' a lessened amount of new issue bonds for reinvestment. This excess demand caused short term Municipal yields to remain relatively stable while taxable yields were being driven up by the expectation of a June 29th increase in the Fed Funds rate. In comparing taxable bond yields versus municipal bonds, we found that the current environment favored certain taxable bonds versus a similar maturity municipal bond. We took this opportunity to purchase a Federal Home Loan Bank note which matures in October 2007 in those accounts where we can own either type of security and where we were putting cash to work. We expect to trade out of this taxable bond when new municipal issuance picks up and the reinvestment into municipals provides a greater tax advantage for portfolios. *Your tax 'bracket' is important to our municipal versus taxable analysis so please make sure we are aware of your current situation.*

With the Fed indicating they may end their two-year push for higher short-term rates, and with municipal yields historically flat, we expect the next change to be lower short term interest rates relative to rates on longer term (10 year+) investments.

Cash Management

Rates on Cash Management investments moved higher in the second quarter as the Fed delivered two additional 25 basis point increases in the Fed Funds Rate, bringing it to 5.25% on June 29th, the second anniversary of the first increase. A patient approach to assessing market conditions and short term yield relationships was rewarded with higher rates as June 30th neared. At times during the quarter, the market lacked direction in the one to two year range as rates stuck stubbornly near the then current Fed Funds target of 5.0%. As Fed follow-through became more likely, higher rates resulted in a better flow of investment opportunities allowing us to increase our allocations to longer maturity investments (1 year +) and increase the yield in portfolios.

Market sentiment just before and persistently after the June 29 Federal Reserve meeting suggest a higher probability for a transition in both the economy and Fed policy. We believe that the economy will experience less robust growth as housing slows and energy costs rise, and, unless inflation becomes persistently above policy targets, the Federal Reserve Board will soon pause. As these indicators remain intact, we will continue to emphasize longer maturity investments (1 to 2 years) in order to protect portfolio income over each account's investment horizon.

Thank you for your continued trust in Caprin. Please do not hesitate to contact us should you have any questions.

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.