Caprin Asset Management, L.L.C.

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

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The third quarter of 2003 was a real rollercoaster ride for interest rates. While we have been anticipating higher interest rates, it was hard to fully prepare for July's unprecedented rise in rates. As we wrote in our August newsletter, we outperformed in this rising rate environment and continued to have positive year-to-date returns. The ride continued into August with hills and valleys leading us into a big decline in rates in September. As October has begun, volatility is again very high with rates on the rise again. We continue to expect prices to be volatile, at least until a new long-term trend is established. We feel that trend will be to higher rates but also realize that the presidential election could keep this from occurring until well into 2004.

With the current steepness of the yield curve, investors are being compensated to extend maturities slightly by picking up significant incremental income. Since we fully anticipate interest rates to be rising, we continue to want to have some bonds maturing within a year or two to roll over as interest rates rise. Those investors who have stretched for yield and built portfolios with a significant maturity exposure in this low interest rate environment should consider reducing the maturity exposure by selling some of the long bonds now to preserve principal. One additional concern is reduced liquidity in times of extreme volatility. Because the municipal market is a negotiated market and bids and offers are handled through a dealer network, in times of extreme volatility the market can become very inefficient and the spreads between bid and ask can widen significantly. It is extremely important that investors get in front of the curve when making long term portfolio decisions. Our portfolio strategy continually tries to contemplate these broad changes and in many instances we are buying into a weak market or selling into a strong market because we are trying to get great execution and the best portfolio structure for our clients.

On September 9, 2003, Moody's Investor Services placed the Commonwealth of Virginia and several of the state agencies on negative credit watch. This was similar to the negative watch S&P issued in October, 2002. While we are concerned about Moody's statement, we see it as a shot across the bow as a warning to the upcoming legislature to take seriously the challenge of creating a balanced budget. We have not seen any adjustment in the market that indicates any concern, but we will remain vigilant. The City of Pittsburgh, PA mentioned bankruptcy as a possible alternative if it doesn't get the tax increases it needs to balance the budget. S&P immediately downgraded the outstanding debt of the city from A- to junk. This should be a wake-up call that the only acceptable outcome is a balanced budget.

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