With all the coverage about the Great Rotation and the possibility of 'Sep-taper', bond investors seek insight on how to position portfolios given new yield curve drivers. Investors in longer dated and/or credit sensitive funds have been challenged since May. But that is not how your Caprin strategy invests. Our intermediate investment solutions seek a Capital Preservation and Income balance, and here are some perspectives on our current thinking.

Bottom Line #1 – Always Look to the Future.

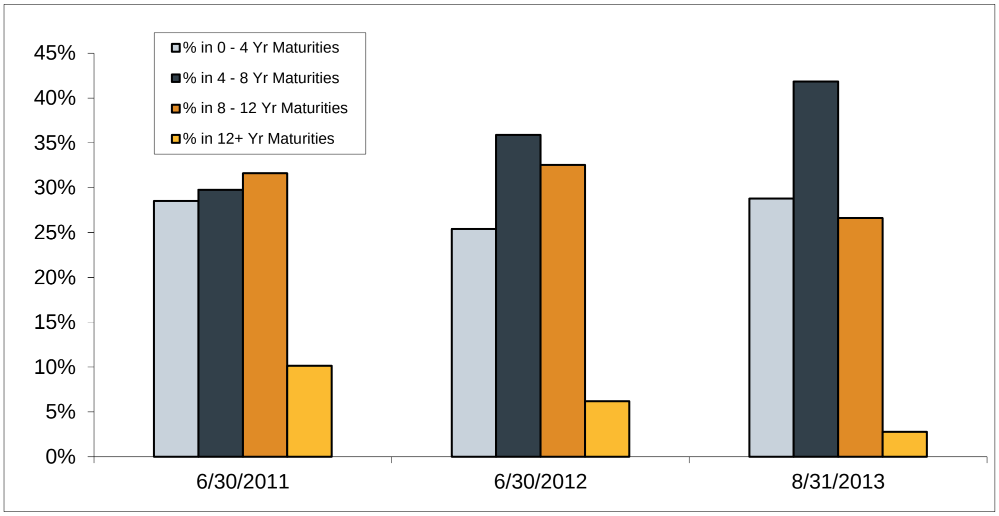
Some funds and strategies have piled on credit since 2011 to boost yield with names that are now under stress….Puerto Rico, Detroit, etc.

We've stayed away from risky states and entities and maintained our high quality discipline.

Yield chasers have gone after long dated bonds with short calls whose true colors are beginning to show.

Our strategies have very little extension risk, minimizing the big 'D(uration)' multiplier on negative returns when rates rise.

We have reduced our longer maturity Muni exposure to lower portfolio sensitivity to a higher rate environment.



Source: Caprin State-Specific Intermediate Composite

In short, we have judiciously structured our intermediate Muni strategy for a prudent balance between sensitivity and income.

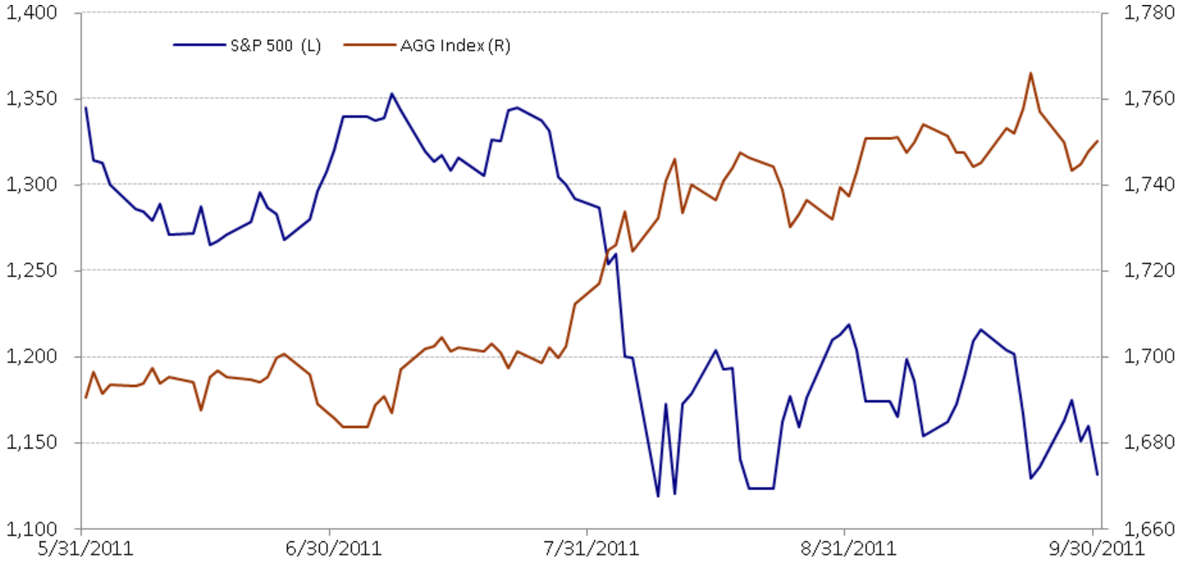
Bottom Line #2 - Equity Risk Has Not Gone Away

The calendar is filling up with scenarios that might pose risk to the 8+ month equity rally as outlined below. Going to cash might reduce the impact of market risk, but bonds can provide an offset to volatility during periods of heightened equity market stress.

1. Military Action - Syria. Our DC leaders are set to vote and finalize the United States' response to suspected chemical weapons attacks. Further escalation in the region (don't forget about Egypt) may ignite the kind of "flight to quality" trade that benefits bonds and hurts equities.

2. DC Fiscal Mess - This year Equity markets have benefitted from relative quiet out of Washington. Next on the agenda are budget resolutions, sequester, and our old favorite the debt ceiling. Bonds provided a welcome shelter the last time Washington mishandled the debt ceiling debate.

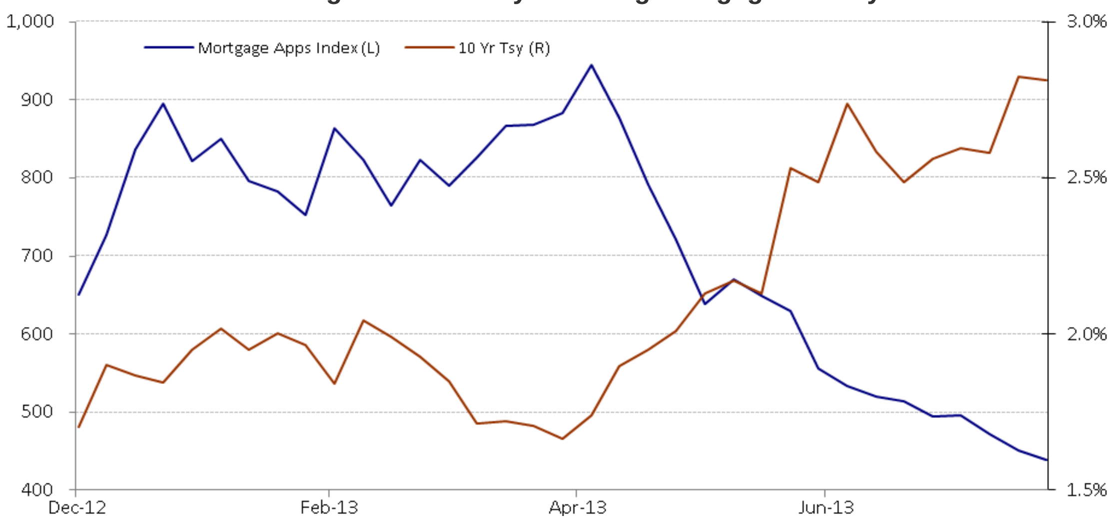
Congress Sent Investors Towards Bonds After August 2011 Debacle



Source: Bloomberg

3. Housing - Looking for a $300k mortgage? The 1% rise in 30 year mortgage rates now means that payment you budgeted will only get you a $266k mortgage. Either home prices suffer or consumers have less disposable income, neither of which is desirable for the economy.

Rising Rates Already Affecting Mortgage Activity



Source: Bloomberg

4. New Fed Chairperson - Bernanke's final term comes to a close in January. The Yellen vs Summers parlor game has been swirling from months and it looks like Summers might now be the favorite. Which do you prefer, the politician or the blank check? Add this to the uncertainty looming before the end of the year.

The risks prevalent in both the equity and fixed income markets should have investors asking "What's the best way to own bonds?" Call us so we can match our solutions with your clients' goals.

Next Up - Don't Let Taxes Blur How You Select Bond Strategies