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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2006 brought better than expected returns for bonds, close to 4% for tax-free investors. That works out to roughly 6% on a taxable-equivalent basis, depending upon the tax rate used in the calculation. As we continue to experience relatively low interest rates, 4% tax-free is attractive, especially coming off of prior years' lower levels.

Looking back, bonds benefited from several macro factors. First, the Federal Reserve Board installed a new chairman, Ben Bernanke, and, since his fourth meeting, he has held the closely watched target rate steady at 5.25%. Second, 2006 saw the slowing of the housing market and the first declines in actual housing prices in over a decade. Third, growth in the U. S. economy continued to moderate from its aggressive pace in 2005 and early 2006. Fourth, prices of raw materials and other commodities retreated from their elevated levels, reducing the fears of accelerating inflation. And, fifth, bonds continued to benefit from the nation's changing demographics, namely the aging of the baby-boomer generation and their increasing preference for less risky investments and a predictable income stream.

In addition to these domestic influences, municipal bonds saw an increase in demand from non-traditional investors similar in nature to hedge funds. These market participants profit by the positive difference between the yields of bonds with longer maturities over those with shorter maturities. Their sophisticated strategies hedge and leverage their portfolios to capture this so called 'positive spread.' Because this profit opportunity has not been generated by Treasury or Agency bonds for some time, these investors will continue to find municipal bonds an attractive means to fulfill their investment objectives as long as conditions warrant.

2006 saw the confluence of several economic forces that created an encouraging environment for municipal bond holders. As we begin 2007, many of these influences are still at work and are contributing to a positive outlook for municipals. On the other hand, the relationship of short term and long term Treasury interest rates remains abnormal and history suggests a return to a normal relationship at some point in the future. Normal is evidenced by that so called 'positive spread' like we see for municipal bonds. If longer Treasury rates rise from here to create this spread, chances are we are headed for higher inflation, something the Federal Reserve continually reminds us about. If short term rates fall while longer term rates remain steady, the economy is likely trending toward slower growth and possibly a recession. Treasury rates have fluctuated widely over the past six months while the Fed's target rate has remained steady, indicating market participants are constantly readjusting their forecasts for the 2007 economy.

So what does this volatility mean for municipal investors? Since interest rates rarely return to normal in a straight line, we take advantage of the opportunities to both capture higher yields and to increase price appreciation characteristics. So far this year the municipal market is experiencing a higher than expected volume of new bonds

being issued, and this is providing ample supply for adjusting your portfolios for the coming year and beyond.

Cash Management

Our theme from last quarter …"Market sentiment over the course of the last three months contemplated a transition in both the economy and Fed policy. These rarely unfold in a 'straight line'" and this certainly held true for the fourth quarter 2006. As the quarter began, rates on Cash Management investments quickly rebounded from the lows we saw in September as claims of economic weakness, or more specifically the unraveling of the housing market, proved to be premature. Meanwhile, Federal Reserve Governors continued to repeat their message about inflation concerns. The pendulum seemed to swing on queue every couple of weeks as the markets received weaker news and then better news, and so forth over the course of the entire quarter. This roller coaster reinforced our 'rarely in a straight line' assessment.

By maintaining portfolio flexibility, we were able to capture attractive opportunities at the high points of these rate swings. Our efforts, consistent with our longer term view, focused on making allocations to additional investments with 1 to 2 year maturities and on improving portfolio yield. 2007 has brought a round of higher rates following a better than expected holiday season, lower energy prices, and 'better' news for the economy. Current rates and trends offer the value we seek for additional commitments in our target maturity range, and we are forging ahead in pursuit of improved income opportunities.

Equities

Several factors benefited equities in the fourth quarter and the market finished the year on the upside. First, oil prices peaked in August and have continued to decline as a result of the country's mild early-winter. Second, the earnings yield on stocks remained highly attractive when compared to the present low level of interest rates. This allows equity valuations to rise relative to other investments as future earnings and dividend streams can be assigned a higher multiple by investors. Third, money is plentiful and private equity firms are booming, which, in turn, leads to increased merger and acquisition activity.

Although investors should be prepared for a meaningful correction in stock prices, we believe the signs that would point to a long, protracted bear market are not yet in place. Equity investors continue to enjoy a friendly and well respected Federal Reserve, but the market may lose its footing for a few months and stumble for a 10-15% loss. This correction, although painful, would appear to be cyclical in nature and probably have a cleansing effect on investor psychology. After all, complacency by many measures is running a tad too high, and we believe this will be replaced by concern before the S&P can move meaningfully higher from its current levels. Having said all of that, long term equity positions should not be disturbed at this time.

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.