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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Our clients, like all successful businessmen and women, understand the principle, "there is no such thing as a free ride." Our country is bogged down in an increasingly unpopular and expensive war overseas. This war against global terrorism has forced the cost of "homeland security" to skyrocket as well. The equity markets have risen on the back of higher earnings, no matter what the quality of those earnings may indeed be. Those of us with enough grey hair understand that political pork – this is an election year after all – plus fighting economically wasteful multiple wars and printing money at the government store are bound to cause interest rates to rise. Politicians and their minions will do their best to keep interest rates down until November, however, there is a real risk that the continuing dollar debasement will not allow this to happen. Our nation's creditors must demand higher interest rates over time to compensate for the degrading of our currency.

So with a war in Iraq, a "jobless recovery," the November Presidential election, inflation on the horizon, yield spread compression, continued low relative interest rates, rising stock markets, an accommodating Fed, what is a municipal bond investor to do? How does one filter out the superfluous information to focus on what really matters? And just how does one decide what really is important? After all, Alan Greenspan is a very intelligent person, and so is Bill Gross, the Managing Director of Pimco Funds. Greenspan says that the Fed can afford to be accommodative until the data tells them otherwise. Translation: rates can stay low as long as they need to but no longer. Gross says own anything except treasuries because this economy is heating up—inflation protected bonds would be better than treasuries. And Third Avenue Advisors suggests that bond investors will be best served by owning only the strongest credit quality paper and not reaching for yield when the economy is reheating and rates begin to rise.

At Caprin Asset Management, we take our name very seriously: Capital Preservation and Income influence every decision we make. Our goal is to preserve capital first and then safely generate as much income as we can given the current interest rate environment and the portfolio structure we think is best. To this end we continue to focus our attention on structuring portfolios to weather the storm of rising interest rates by maintaining a defensive posture. Fundamentally, we think interest rates should be higher than where they are now, yet cash is a terrible place to hide, with most money market funds yielding less than ½ of one percent per year. And given a very steep yield curve, with one year paper yielding around 1% and 10 year paper yielding almost 4%, we have continued to purchase bonds in the 1 to 2 year range and selectively in the 10 year range. This structure continues to provide portfolios the ability to reinvest easily as rates rise as well as take advantage of the increased income from stepping out along the yield curve. At the same time, municipal yields are attractive compared to treasury yields in the 1-2 year and 10 year range, which has increased the attractiveness of the "barbell" structure we have emphasized.

As always, thank you for your continued trust in Caprin. We strive to do something good for every client every day. Please feel free to contact us at 804-648-4036 should you have any questions.

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