



3RD QTR 2006

Third quarter was not ho hum by any means. All through third quarter, bond market expectations continued to grow and believe that the next move by the Federal Reserve would be to lower interest rates; so bond prices were off to the races pushing prices up and yields down. The bull was a mighty beast in the face of August oil hitting \$80.21 for a split second, then proceeding to plummet to and through \$60 a barrel. The bond bull was in full command as commodity prices crested then declined, all-the-while investors were stunned about the downward trajectory of home sales and prices. No...this was no ho hum quarter.

Subterra, hundreds of billions of private equity and leverage buyout monies were movin' and shakin' like a Tahitian dancer's hips. Corporate names you are probably familiar with like; Univision, Reckson, Harrah's and Freescale Semiconductor (to name just a few) all were in play. Good for shareholders, bad for bondholders.

And then of course, there's the corporations that continue to bow to agitated shareholders and institutional activists by buying back their shares as if they were on sale at WalMart prices. Good for shareholders, bad for bondholders. Why? Because that means cash gets taken off the balance sheet and leverage is increased: all of which is bad news for bondholders.

All of the above is a wind bagged reason that, as your portfolio manager, I have purchased more government agency bonds than ever. The reasons are simple.

Congress remains paralyzed to reform these Government Sponsored Enterprises. Even though Fannie Mae and Freddie Mac have: restated their financials several times,

continue to scrub those financials, paid tens of millions in fines, they remain AAA Credit quality.

Go to our website; www.envisioncap.com and click on "Articles" then click on to my July 3, 2006 *Forbes* column titled "Teflon Bonds". There you can read that no matter how bad the numbers news or greedy the imbeciles who cooked the books were; all the bad news slid off these Teflon coated Fannie Mae and Freddie Mac bonds.

So with "event risk" lurking, owning some government agency bonds offers you protection.

Municipal bonds on the other hand, have been investors most rock solid asset class. Munis have performed as promised; pumping out tax free coupons with little fanfare while preserving your capital.

Overall, it has been a good quarter. The economy has continued to slow and that's always good for the bond market. I am optimistic this positive turn in bonds will last longer than most think.

Before you blink, fourth quarter and the holiday season will be faint memories. Enjoy yourself. Savor and relish everyday. The bond market goes up, it goes down. We will continue to do our best to serve your investment needs.

All the best,

Marilyn

P.S. If you do not subscribe to *Forbes*, you can always read my bond column on our website, where they are archived.