INVESTMENT OUTLOOK

3RD QUARTER 2005

If you aren't relieved the third quarter is over then I am relieved for you. The Katrina and Rita hurricanes coupled with the spike in energy prices, sandwiched between a surge in debt financed takeovers which can cause balance sheet purgatory, a record downgrading of $505 billion of debt to junk bond status, narrowing credit spreads, airline bankruptcies; represent a quarter full of bad news.

For municipal bond holders, several of our clients did and do hold municipal bonds that were effected by the hurricanes. In fact some of the projects were obliterated because the area itself was destroyed. Thankfully these hurricane related bonds were either escrowed to maturity or prerefunded with U.S. government obligations or insured. Interest and principal will continue to be paid in a timely manner without skipping a beat. It will be up to the insurers whether they decide to accelerate principal payments. The escrowed and prerefunded bonds will last until their regularly stated dates.

Going forward, these enormous claims may put stress on the insurers so it is essential we continue to diversify and scrutinize the finances of each insurer.

As I have said in previous quarterly Outlooks and conversationally, the blissful corporate balance sheet repair experienced over the past four years is turning into balance sheet despair. It's all about where we are in the economic cycle. The reason is that companies are being "shaken down" by activist shareholders for the "spare cash" on the balance sheets. Shareholders love buy-backs, we bond holders hate our cash being squandered.

Stock Market performance has overall been lackluster. Year to quarter end, the NASDAQ Composite Index is down 1.1%, Dow Jones Industrial Average down 2%, S&P 500 stock index up 1.4% (due to its high energy weighting). Leveraged Buy Outs (LBO's), Mergers & Acquisitions and Private Equity transaction volumes are rising. So it won't be surprising if corporate bonds will have to be sold and replaced if such negative news events impact our specific positions.

It was easy during the post stock market bubble to sit back and let the captains of industry pay down debt, reduce borrowing costs and get their finances in order. Now those same captains are fearful of being capsized by outsiders and are doing whatever it takes to keep shareholders from potential mutiny.

I'm not sounding an alarm, I'm just alerting you that the remaining months of this year and 2006 will be very different than the past few years. If you look at the last page of your quarterly report under the Internal Rate of Return and notice a paltry return that's due to the Federal Reserve's continued march to higher interest rates. Our short duration portfolios are more sensitive to higher rates than longer term twenty and thirty year bonds. The Greenspan yield curve quandary is still in full swing.

So what to make out of this? Interest rate increases will be overdone, the economy will eventually slow, housing will finally lose its luster, high energy prices will cripple the lower and middle class, GDP will decline, retail sales will continue to suffer and then the Federal Reserve will once again begin a new cycle of lowing interest rates sometime at the end of 2006.

Hang on. It's just part and parcel of the cycle eventhough a bit unpleasant, we've been here before; eighth inning in a game that will hopefully not have overtime.

Wishing you a wonderful Holiday Season and by next quarter, bond news hopefully will be considerably more upbeat.

Marilyn