

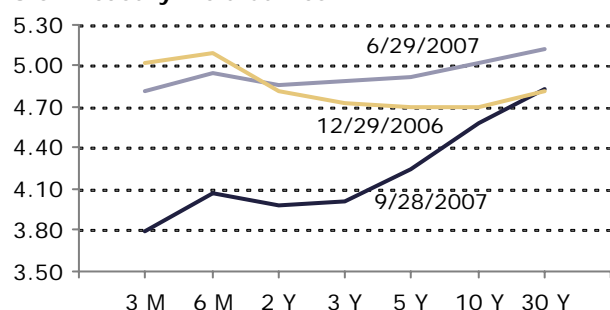
# Tax Efficient Fixed Income

## 3<sup>rd</sup> Quarter 2007 Review and Outlook

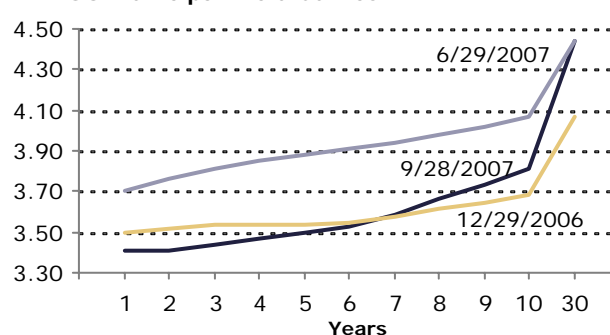
September 30th ended an exceptionally good quarter for fixed income securities. Both municipals and Treasuries provided the strongest quarterly showing in several years, serving their historic role of safe harbor during turbulent times. Five-year municipal and Treasury indices recorded returns of 2.56% and 4.21%, respectively, over the three months.

Rates had just revisited their cyclical highs in early July when the sub-prime crisis broke. Several prominent hedge funds were subsequently compromised, and many financial institutions both here and abroad suddenly had difficulty funding operations through traditional channels. Housing sales, already weak, fell throughout the summer, inflation indicators subsided, and the August employment report drew concern that the economy was slowing. The stock market bent, but did not break.

**U.S. Treasury Yield Curves**



**AAA GO Municipal Yield Curves**



The Federal Reserve addressed the credit freeze-up by lowering the discount rate and liberalizing the collateral it would accept at the discount window. It then addressed concerns of a weakening economy by abruptly lowering the Fed Funds Rate by one-half percent in mid-September. Markets reacted dramatically: stocks revisited record highs, with homebuilder shares doing particularly well; credit-sensitive issues rallied; the already-weakened U.S. dollar fell further; and commodities prices jumped. Conditions in the credit markets have eased significantly. Each of these reactions carries the seeds of economic resurgence and with it the possibility of higher inflation. The Fed's remedies also drove short and intermediate-dated municipal and Treasury yields lower, but longer-dated yields actually increased, making the five-year area – the sector in which your bonds are concentrated – the best performing part of the yield curve.

The market expects slow economic growth in the coming several months, with several more easing steps by the Federal Reserve. Since Samson Capital Advisors LLC opened in June 2004, our investment committee has held the duration of client portfolios in a defensive posture, with very high credit quality and durations short of our norm. Although the committee approved a duration lengthening as yields rose in June, it was only to establish a position in the 7-10 year area of the market and to meet the index, not to exceed it. Now, with yields well below June levels and with positive reactions in global markets, we intend to keep the duration of client portfolios in a conservative position.

The municipal market is facing some significant uncertainties: the Davis v. Kentucky Supreme Court decision due in March may affect the price of bonds issued by high-tax states; the sunset of the Bush tax cuts in 2010 may begin to help the market; and the rapidly increasing tax receipts are starting to slow in many states. Municipals are presently priced in the fair range relative to taxable alternatives, but the uncertainties should present opportunities going forward.

October 11, 2007

*There is no guarantee that the forecasts and opinions expressed in this article will be realized. The statements in this article are opinions only and are not guarantees or projections of future performance.*