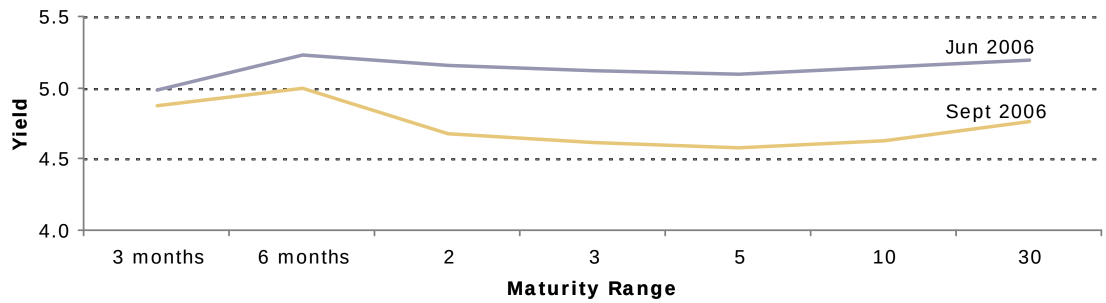
Tax Efficient Fixed Income

3rd Quarter 2006 Review and Outlook

SAMSON CAPITAL ADVISORS

The 3rd quarter was characterized by a significant decline in intermediate and long term bond rates. For example, the 10-Year Treasury opened the quarter at 5.14% (after having peaked at 5.25% on June 28), while it ended the quarter at 4.65%, a remarkable decline of 60 basis points. Similarly, the 5-Year Treasury opened the quarter yielding 5.09%, and ended at 4.54%. Throughout this period, the Fed held short term rates constant at 5.25%, significant in that it was the first time they paused in raising rates since June of 2004.



Late in the 2nd quarter, we moved to lengthen the portfolio durations, bringing it neutral to its benchmark. We believed that yields had finally begun to offer reasonable value, for several reasons. From a macroeconomic perspective, several important economic sectors had begun to slow (housing, autos, etc). In reviewing Fed monetary policy, we came to believe that the Fed's pause might be just that and, combined with the decline in gas and oil prices, would be conducive to a pick-up in economic activity and contribute some upward pressure on inflation. Though energy prices are off their highs, the broader commodity markets remain buoyant reflecting healthy global demand for raw materials. Furthermore, upward pressure on wages is becoming increasingly evident. Lastly, while inflation-adjusted municipal yields remain low, they had begun to rise and were beginning to offer some degree of real returns.

Yet duration is only one tool that we use to add value. Our yield curve strategy remained in a bulleted or clustered position, focusing our efforts on the 3-7 year part of the curve where we believe the risk/return trade-off is most attractive. This strategy is also consistent with our long-term view that the curve will steepen.

We have continued to increase the credit quality of portfolios by emphasizing prerefunded securities in our purchases. This is consistent with our concern that credit spreads are too tight given the current environment and are likely to widen over time.

After-tax sector allocation is also an important aspect of our investment management approach. Municipals have outperformed taxable securities on a relative basis for much of the year. Accounting for this out performance was lower issuance, with bonds from high tax states such as New York and California in particular short supply. However, the significant rally in taxable bonds that occurred in the last weeks of the quarter made municipals relatively more attractive than taxable securities on a rich/cheap basis and we have also reduced our exposure to taxable bonds at this time.

With much of the rally behind us, we believe that there will be some increase in yields, perhaps before the end of the year. Autumn is generally a time when municipal issuance increases, and current low rates are likely to encourage issuers to expedite their borrowing needs. Apart from energy costs, inflation remains a concern and we are carefully monitoring the recent pick-up in labor and food costs.

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