

Market Commentary

Period Summary

Our year-end letter focused on the complete reversal of the risk/reward tradeoff. This extended period, when investors required little incremental return in exchange for risk, ended in the second half of 2008, when it seemed no amount of prospective return could induce investors to take on risk. We noted that the long U.S. Treasury bond returned a stunning 41% during 2008, while municipals and corporates lagged and stocks ... well, you know. That atmosphere continued into the early days of 2009.

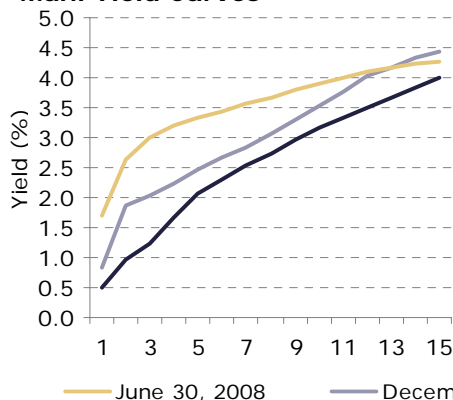
As we mentioned in our last report, our investment team moved to lengthen the duration of our clients' portfolios last fall when municipal yields were much higher, in some cases reaching twice the yield offered by Treasuries. We believed that municipal yields had overstated the risk of default and understated the decline in future inflation. We entered 2009 with an optimistic view of the municipal market, convinced that cheap valuations would support municipal prices when Treasury prices began their inevitable decline. This proved to be accurate.

The risk/return balance began to shift again in late December, when corporate bailouts and massive stimulus proposals began to buttress investors' assessment of credit risk. Credit spreads narrowed, money markets began to function again and concern about bank failures subsided, as evidenced by an almost doubling of bank deposits (following a period of massive withdrawals and repositioning into negative yielding treasury bills). The reverse side of bailouts and stimulus spending is, of course, a massive borrowing requirement on the part of the stimulator. The Treasury's looming \$2-plus trillion 2009 borrowing program began to weigh on Treasury bond prices in late December, just as the bid for lesser credits began to firm. The long Treasury Bond that had performed so well in 2008 has fallen 15.75% since year-end despite, or perhaps because of, huge purchases of Treasuries by central banks, foreign and domestic. Investors seemed to realize that the Fed has had a poor record of turning off monetary stimulus once an economic rebound has begun. Yields on Treasuries and Agencies that had been driven to unrealistic levels by panicked investors offered no buffer when prices started to fall.

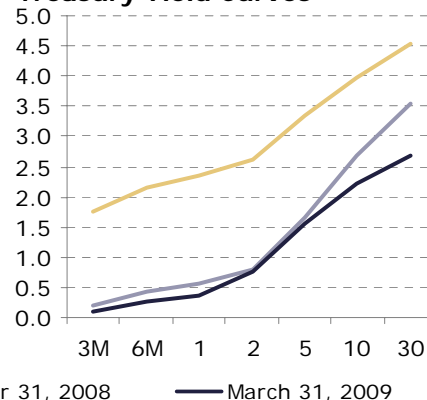
Period Highlights

- Investors' extreme risk aversion has eased somewhat
- Cheap valuations support municipal performance
- Treasuries underperform as government borrowing balloons

Muni Yield Curves



Treasury Yield Curves



Municipal yields bottomed in mid-January, and most of the sector's return was earned in the first few weeks of the year (the Barclay's Five-Year Municipal Index had a negative 1.27% return from January 16th through March 31st). Unlike 2008, when the 3-5 year range was the best performing area of the municipal market, the long end outperformed during this most recent quarter (although that end of the market has not yet recovered from the sharp losses incurred during 2008). Stocks are well off their lows, and there have been a few, tentative signs of an economic pulse. The recession remains global and severe by historic standards, and we are not out of the woods by any means, but the mood has lifted. Events are beginning to look better against the backdrop of low asset prices and even lower expectations. Samson's investment team shortened the duration target of client portfolios at the end of January, locking in gains and reducing interest rate risk. While defensive about duration, we believe the extraordinary credit tiering in the municipal market offers opportunities to enhance returns without jeopardizing principal. Without municipal insurance to homogenize credit pricing, we can now add high quality local issuers at yields of 80 – 100 basis points above the AAA scale, issuers that will benefit from a gradual economic recovery, rising state and local taxes and by stimulus from Washington. More important, that incremental yield will buffer the effects of rising interest rates. Rigorous in-house credit analysis, always a hallmark of our firm, will continue to support principal preservation, but will also contribute to enhancing returns by identifying undervalued securities.

The past eighteen months have been harrowing for investors, as this country's many excesses have converged to shake citizens' faith in our nation's most venerable institutions. Samson Capital Advisors continues to focus on managing our clients' risks in their fixed income portfolios through these turbulent times.

April 15, 2009

Data Source: Bloomberg®

The opinions expressed herein are solely attributable to Samson and should not be construed as an offer to buy or a solicitation to sell any securities.

Inherent in any investment is the risk of loss. Past performance is not indicative of future results.

- Municipal yields hit bottom in mid-January

- In-depth credit research is increasingly important to identify undervalued high quality issues

- Samson focuses on managing risk