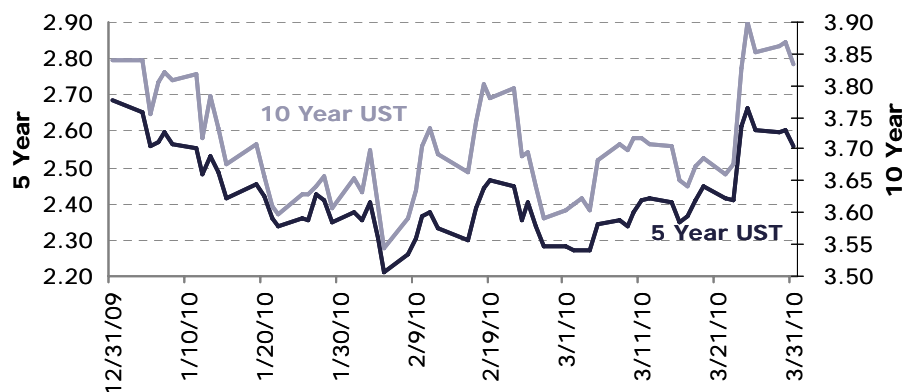


## Market Commentary

### Period Summary

If 2009 was a year of collecting and surveying the pieces left from 2008's near-destruction of our financial system, then 2010 will be a year of putting the pieces back together. Despite the ongoing fiscal challenges facing state and local governments, the strong performance in the municipal market in 2009 has carried over into 2010, albeit at a more moderate pace.

In our year-end commentary, we addressed concerns over the extremely low interest rate environment and how stock and bond valuations had reversed over the prior decade. Consequently, we structured our clients' portfolios with shorter durations as we anticipated an increase in rates. While yields in the fixed income markets trended lower over the first two and a half months of this year, they reversed course in mid-March as indications of an accelerating recovery and increased borrowing demands created a sharp selloff in Treasuries. The 5 and 10-year Treasury bonds made a round trip, from 2.69% and 3.84% at year-end to 2.56% and 3.83%, respectively, as of March 31<sup>st</sup>, closing the quarter where they began (see the chart below). This volatility was triggered in part by concerns over the widening budget deficits in Greece, Spain, and Portugal and the countries' struggles to control them.

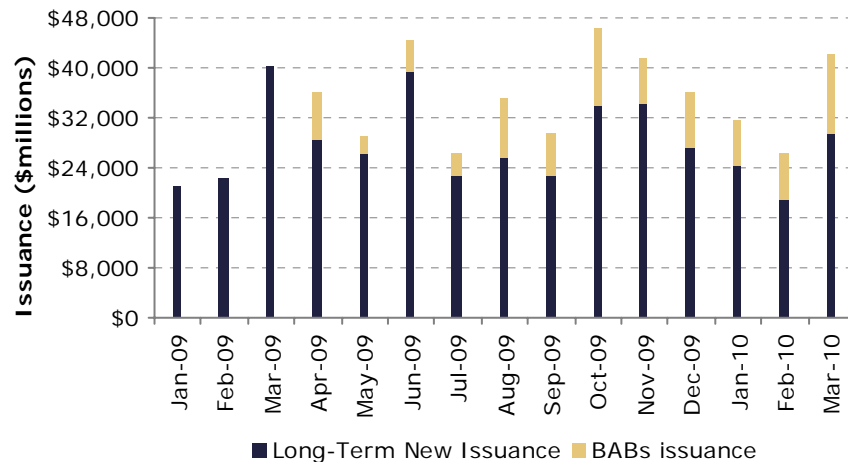


Despite an accumulating backdrop of negative credit news, the tax-exempt municipal market experienced modest gains throughout most of the first quarter, aided in part by record inflows into municipal mutual funds. With investor demand remaining steadfast, the 5-year municipal yield decreased from 1.57% at year-end to 1.44% in mid-March. Much of this growth can be attributed to the steady imbalance between supply and demand as the growing issuance of Build America Bonds (BABs) made up a large percentage of total municipal issuance (almost 30% over the first quarter of this year), thus, limiting the supply of tax-exempt bonds (see the chart on next page). In addition, anemic money market rates forced yield-starved investors to search for more attractive places to park their capital, one of which was the short-end of the investment grade municipal market. However, as was the case in the Treasury market, the downward trajectory of municipal yields reversed its course through the end of March with the 5-year municipal yield ending the quarter at 1.77%. Our move to shorten the duration of portfolios protected their market values.

### Period Highlights

- The municipal market performance continued to be strong in early 2010
- Treasury bond yields dipped in the first two months of the year, but rebounded to year-end levels.
- Build America Bonds issuance reached 30% of total new municipal issuance during the quarter.

## Build America Bonds Issuance vs. Total New Municipal Issuance



We expect a slow, but steady recovery as the economy continues to send mixed signals. The encouraging news is that consumer confidence is on the upswing and there is optimism in the labor market as business plans for hiring and capital improvements appear to be on the horizon. For five consecutive months, we have seen improving cash flows and rising consumer spending as a result of increased infrastructure and technology investment in the business community. This bodes well for the labor market as businesses are more likely to hire in an improving economy and will be forced to add to their workforce to counter increased production demands. Furthermore, inclement weather conditions in February may have distorted employment data. The combination of improved corporate earnings and low money market rates has also contributed to the 5.4% return of the S&P 500 index in the first quarter as investors are less risk averse. The recovery, however, faces some headwinds, with a still stagnant housing market, sluggish income growth and slack improvement in the labor market.

For the first time in two years, we expect private borrowing to grow and to begin competing with the huge amount of public borrowing, putting upward pressure on bond yields. As rates increase, we expect to see some demand from yield-starved investors, which will contribute to a flattening of the yield curve. Rising bond rates will have a negative impact on municipal bond prices, but those declines will continue to be muted by the reduced supply of tax exempts (as issuers continue to take advantage of BABs subsidies) and the anticipation of higher federal and state income tax rates. Oddly, continued deterioration in the condition of state and local finances has had minimal impact on municipal pricing.

We have maintained a duration target for clients' portfolios that is below that of the benchmark and will continue to employ a barbell strategy as we anticipate a further flattening in the municipal yield curve. As mentioned in our last commentary, we have added U.S. agencies to client portfolios in deference to rich municipal valuations in shorter maturities.

April 16, 2010

Data Source: Data Source: J.P. Morgan, Bloomberg®, and Siebert Branford Shank & Co.

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- There are mixed signals for economic recovery: optimism in the labor market and an increase in consumer confidence versus a stagnant housing market and slow income growth.
- Growth in private and public borrowing may cause municipal rates to rise.
- A barbelled strategy will benefit from a flattening yield curve