

“Our Clients’ Past Successes are Not Necessarily Indicative of Future Successes.”

## **Stamper Capital & Investments, Inc.**

“Focusing on Upside Potential with Downside Protection Since 1995.”

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### **BLOOMBERG NEWS**

#### ***Muni Credit Spreads Widen to 2-Month High on Weaker Fund Flows***

By Jeremy R. Cooke | 11-09-2009

Nov. 9, 2009 (Bloomberg) -- Relative borrowing costs for lower-rated states and municipalities rose to the highest in two months as buyers pulled back from high-yield funds amid concern localities may struggle to recover from the recession.

The gap between yields on tax-exempt bonds rated AAA and BBB widened to 248 basis points, or 2.48 percentage points, the highest since Sept. 7, Merrill Lynch indexes show. The four-week moving average for investor cash flows into funds that buy higher-yielding municipals fell below \$50 million for the first time in more than six months, according to data cited by JPMorgan Chase & Co. on Nov. 6.

**Lower-rated tax-exempt bonds may be headed for further declines as they sustain lingering effects from the recession and financial crisis, said Clark Stamper, who manages the \$672 million Evergreen Strategic Municipal Bond Fund in Corona del Mar, California. [Note, this article was updated once, in the first version it said, "Municipal bonds may be headed for declines as they sustain lingering effects from the recession and financial crisis, said Clark Stamper....."]**

**"The downturn is going to be similar to last year [2008]," said Stamper, whose fund outperformed 96 percent of its peers the past month. "Credit quality is a lot worse. A lot of problems haven't been resolved: budget problems, pension problems."**

Revenue gaps of almost \$16 billion have opened up in 26 state budgets for the current fiscal year, which began July 1 in most states, the Center on Budget and Policy Priorities said Oct. 20. States and municipalities that came into the recession with underfunded pensions and then suffered investment losses or opted to put off contributions may have their credit ratings cut, Moody's Investors Service said Nov. 6.

#### Yield Average

Moody's yield average for 20-year municipal bonds rated A reached a 13-year high of 6.44 percent on Dec. 12, 2008. The index fell to a 19-month low of 4.43 percent last month before rebounding to 4.92 percent on Nov. 6.

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Yields on top-rated general obligation bonds due in 10 to 13 years slid by one basis point today, according to a daily survey by Municipal Market Advisors. The 10-year index reached 3.16 percent, the lowest since Oct. 13.

Investor demand for higher-rated investments is keeping benchmark yields low, even as buyers demand bigger payouts for lower-quality securities, according to a report today from the Concord, Massachusetts-based independent research firm.

California is seeking \$1.5 billion from investors this week to replace property tax revenue that the lowest-rated U.S. state is borrowing from local governments to help plug its budget gap this fiscal year.

#### Higher Estimated Yield

The Statewide Communities Development Authority and banks led by Goldman Sachs Group Inc. marketed the debt at an estimated yield of 3.25 percent today, up from 3 percent last week. California promises to repay the debt by June 2013.

Similar-maturity general debt sold by the biggest municipal borrower in late March traded as recently as Sept. 30 at prices to yield less than 2 percent.

Connecticut is selling \$600 million of bonds to help finance a deficit left over from the year ended June 30, which Citigroup Inc. is handling. Estimated yields ranged from 1.2 percent on notes due in 2012 to 2.86 percent on those maturing in 2016, Klein said in an e-mail.

Both states took orders from individual investors today and will offer them to institutional buyers such as mutual funds tomorrow. Retail buyers placed \$233 million of orders for Connecticut's offering Nov. 6, according to an e-mail today from the state treasurer's office.

Municipal issuers have about \$5.7 billion of fixed-rate bond offerings scheduled for this trading week, which will be split by the Veterans Day holiday on Nov. 11, when U.S. bond markets close.

#### Since Labor Day

The planned total is the least since the \$3.7 billion in issuance during the Labor Day week ended Sept. 11, according to data compiled by Bloomberg. The municipal market absorbed \$10.7 billion of new fixed-rate issues last week, the data show.

Municipal credit spreads, the yield difference between high- and low-rated bonds, have widened by about 30 basis points in the past few weeks, said Neil Klein, senior portfolio manager at New York-based Carret Asset Management, which oversees \$1.6 billion.

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"Spreads had been on such a great run that it is hardly a big surprise that they backed up," Klein said in an e-mail. "Demand was floundering at those narrow spread levels."

New York City, rated Aa3 by Moody's and AA by Standard & Poor's, sold 10-year general obligation bonds on Oct. 1 at a price to yield 3.2 percent, 28 basis points more than the Bloomberg Fair Value AAA 10-year index. The city's bonds traded last week at 3.99 percent, or a 64 basis-point spread, Municipal Securities Rulemaking Board trade data show.

Tax-exempt bonds backed by Ohio's share of tobacco settlement payments and set to mature in 2047, which traded at yields ranging from 11.5 percent to 7 percent this year, offered about 8 percent last week.

'Strong Demand'

"There still is very strong demand for lower investment- grade credits," Klein said. "Barring any major surprises on the economic front, there should be good support at current credit spread levels."

The Merrill Lynch Municipal Master Index has gained in seven of the past 10 months and produced a return of almost 13 percent, the best year-to-date performance since 1995.

**"We used the rally to get even more defensive. We shortened the duration," Stamper said. Duration is a measure of how sensitive bond values are to changes in interest rates.**

**Financial firms may still need to write down the value of debt holdings, Stamper said, which would drag out a credit crisis already responsible for \$1.67 trillion in such losses.**

**"It's going to have an impact on the economy and municipal governments," he said.**  
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Stamper Capital & Investments, Inc. Added Comment on 1-17-09: If you look at a chart of Net Asset Value (N.A.V.) prices of most municipal bond funds, you will notice that general and high yield municipal bonds and funds peaked around October 5th, 2009. We at Stamper Capital & Investments, Inc. expect that peak to hold and to be the precursor of a downtrend in riskier assets such as stocks, high yield bonds, and longer duration bonds similar to that of 2008.

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core of this Bloomberg article. In addition, Mr. Stamper is frequently interviewed and quoted by Bloomberg and Bloomberg's reporters.

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Stamper Capital & Investments, Inc. has been the sub-adviser to this Fund since October 1995 and B. Clark Stamper, our President, has been its Portfolio Manager since June 1990.

Past performance does not guarantee future results, and current performance may be higher or lower than the performance data quoted. Investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost.

Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's websites for more information.

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