Stamper Capital & Investments, Inc.

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

REUTERS

FUND VIEW - Evergreen Muni Manager Sees Cushion" Bond Bubble

By Dean Patterson | 10-07-2004

NEW YORK, October 7, 2004 (Reuters) - The desperate quest for extra yield has extended all the way to "cushion bonds" in the U.S. municipal bond market, said a fund manager who specializes in this niche.

"I am calling it the cushion bond bubble," **Clark Stamper**, manager of the $850 million **Evergreen Strategic Municipal Bond Fund**, told Reuters in an interview on Thursday.

Cushion bonds are nearing an optional call date. They generally are priced by the market to yield more than comparable bonds without a call because of the added uncertainty of the call. Cushion bonds are frequently used as a defensive bet in a rising rate environment.

"No one can find any value in the market. They found these to hide out in. I have been hiding out in them for years," **Stamper** said.

He said about 60 percent of his fund is currently in cushion bonds.

Stamper said he still buys them in the current market environment but it is getting much tougher to find bargains.

"I have sold some of my cushion bonds at these higher levels. I never thought I would do that. Normally, I only sell them after they lose their cushion," **Stamper** said.

Stamper said he sold some cushion bonds to dealers at prices that if the bonds were actually called within two years it would lead to a negative total return for the investor.

"I would say that was about two points (in price) higher than what I would have bid," **Stamper** said.

Cushion bonds enable **Stamper**'s fund to maintain a relatively low "duration" or price sensitivity while maintaining a relatively higher average maturity, he said.

Stamper also specializes in high-yield muni bonds, which he has mostly steered clear of since 1999.

High-yield muni bond prices are generally at "irrational" levels, **Stamper** said. "Yield spreads are very tight. The upside potential versus the downside protection is not favorable," he said.

High-yield muni fund managers are forced to buy over-priced securities because cash is flowing into their funds, akin to what tech stock managers had to do at the top of the stock bubble, **Stamper** said.

On Oct. 1, Evergreen Investment Company LLC changed the name of **Stamper**'s fund to drop "high-yield" from the title.

Stamper said his mandate has not changed: he seeks high-yield relative to risk, rather than an absolute high-yield. He has managed the fund since 1990. The funds average credit rating is "AA."

Thursday, 07 October 2004

Stamper Capital & Investments, Inc. provides portfolio management services exclusively for institutional and high net worth accounts and does not sell the mutual funds for which it is a sub-adviser. Also, please note: purchasers of mutual funds must receive a copy of a particular mutual fund's prospectus before a purchase is made.

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.

Please see the Disclaimer link at the bottom of this page for more information about risk and return.