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Comparing Tax-Free Yields & Taxable Yields

If you pay any income taxes, tax-free municipal bonds are probably a compelling investment option – but how do you tell if a tax-free investment is more attractive than a taxable investment? First you must consider the type of account you will be putting tax-free investments into. For instance, putting tax-free municipal bonds in an IRA does not make sense because the growth in an IRA is already tax-free. Next, when considering a taxable or tax-free investment option, you should make sure the investments have equal risk, that is, similar credit quality, duration (a measure of interest rate sensitivity), call risk, etc. We have provided an example where we compare currently quoted AAA-rated ten-year municipal bonds, a ten-year U.S. Treasury bond and a ten-year C.D. that is backed by the FDIC. These all have similar credit risk (very low) and identical durations (ten year maturities).

Once you have equated the risks, there are a couple ways to make a yield comparison. You can either translate all the yields to pre-tax equivalent yields or you can translate all the yields to after-tax yields. Professionals usually compute pre-tax equivalent yields. However, after-tax yields are more straight forward to calculate and are often more useful because they can be used to calculate dollars of income after all taxes – that is what it is all about isn't it?

The first table below is based on rates currently quoted in the market and shows how to do a comparison on a straightforward after-tax dollar basis:

	CA Issued AAA Municipal	**AAAMunicipal**	**U.S. Treasury**	**Certificate of Deposit**
Tax Status	10 years	10 years	10 years	10 years
Federal (39.6%)	Tax-Free	Tax-Free	Taxable	Taxable
State (9.3%)	Tax-Free	Taxable	Tax-Free	Taxable
Quoted Yields	4.75%	4.75%	5.74%	6.00%
Initial Investment	$100,000	$100,000	$100,000	$100,000
Gross Income	4,750	4,750	5,740	6,000
Federal Tax (39.6%)	0	0	-2,273	-2,376
CA State Tax (9.3%)	0	-442	0	-558
Income After Taxes	**$4,750**	**$4,308**	**$3,467**	**$3,066**
Yield After Taxes	**4.75%**	**4.31%**	**3.47%**	**3.07%**

From the above chart, you can easily see which bond is the most attractive given our assumptions that the investor is in the maximum tax bracket and lives in California. The state and federal tax-free municipal bond generates the most income after both state and federal taxes. In second place is the municipal bond that is tax-free for federal taxes but is subject to California state taxes. In third place is the U.S. Treasury ten-year bond, which is subject to federal taxes but not to California state taxes. In last place is a typical ten-year certificate of deposit, which is subject to both state and federal taxes.

For an investor in a high income tax bracket the choice is clear, federal and state tax-free municipal bonds are the best choice among these investment opportunities. Even greater opportunities lie in strategies that Stamper Capital & Investments, Inc. has developed, tested and proven over the past sixteen years in the fixed income markets. (...continued on the top of page 2)

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Where the Value is:

The Bottom Line: The chart below shows that tax-free municipal bonds are a bargain for investors who are in a high tax-bracket. The chart compares a $1 million investment in a variety of U.S. Treasuries and Municipal Bonds. Taking into account federal tax, a one year municipal bond account would yield $7,400 more annually than a U.S. Treasury; using 30 year maturities the annual benefit would be $20,400! This example uses municipal bonds with the highest credit rating: AAA, making the credit risk factor comparable to that of a U.S. Treasury. The bottom line for investors in a high tax-bracket is that currently municipal bonds make sense and will easily outperform U.S. Treasuries on an after-tax basis.

	U.S. Treasury		Tax-Free Muni's[2]	Tax-Free Muni vs	Annual Benefit
	Actual	After Tax[1]	AAA-G.O.'s	U.S. Treasury	Tax-Free
1 Year	5.96%	3.60%	4.34%	74 B.P.[3]	**$7,400**
5 Years	5.75%	3.47%	4.56%	82 B.P.	**$8,200**
10 Years	5.73%	3.46%	4.84%	138 B.P.	**$13,800**
30 Years	5.81%	3.51%	5.55%	204 B.P.	**$20,400**

1. Assumes top Federal Tax-Rate fo 39.6% and ignores state taxes.
2. Source: Bloomberg
3. B.P.= Basis Points 1Basis Point = .01%

Front Page Article Continued...

Now for the short-cut method. This method answers the question, "What taxable yield is a certain tax-free yield equivalent to (before taxes)? For example, what is the yield that the CD must beat in order to be more compelling than the 4.75% Federal and State tax-free yield from the second column of our previous example?

The equation: take the tax-free yield and divide it by (one less the tax rates) to calculate a "pre-tax equivalent" yield.

Pre-tax equivalent yield:

= tax-free rate / (1- fed. tax rate – state tax rate)
= 4.75% / (1- 0.396 – 0.093)
= 4.75% / (0.511)
= 9.30%

Thus, a ten-year certificate of deposit must pay 9.30% to be equal to the AAA Federal and State tax-free ten-year municipal bond that is yielding 4.75% tax-free.

Always Examine the Evidence:

Investment	$100,000
Taxable Investment Rate	9.3%
Gross Income	$9,300
Federal Taxes at 39.6%	-$3682
State Taxes at 9.3%	-$865
Net Income After Taxes	$4,753
Tax-Free Yield	4.75%

Unfortunately, the professional's "short cut" gets more complicated for bonds that are not state tax exempt, and when comparing to U.S. Treasuries that pay Federal but not state taxes. When in doubt, it's best to calculate everything as dollars of income after taxes – because **keeping more of what you earn is what it's all about!**

Buy of the Month

For Our Private Accounts

On October 3, 2000, we made an exceptional purchase of an attractive odd-lot (small piece) at a compelling level: we purchased this bond at 102.25, which equates to an exceptional 6.42% yield to the next call date: 1-01-2001 at 102. If the bond makes it all the way to maturity, and we think it will since the first possible call was in 1988, the yield to maturity is a very attractive 7.32% tax-free.To equate these yields to taxable yields (like a CD or Stock Market return), we translate them into pre-tax equivalent yields taking only the federal tax (39.6%) into consideration and dividing by (1-tax rate). The bond also has a sinking fund, so we calculated the yield to the bond's average life based on scheduled sinking fund payments. The average maturity of the bond, using the scheduled sinking fund payments, is 10-16-04; our purchase is a tax-free 7.10% yield to that average life or 11.75% pre-tax equivalent. This bond compares favorably to a similar credit quality risk of a U.S. Treasury – in fact, these bonds are escrowed to maturity in U.S. Treasuries so they have identical credit risk. The table below summarizes these calculations and adds a pre-tax equivalent yield spread to similar duration U.S. Treasuries – Generally, the wider the spread the better! From the chart you can see that we expect this exceptional investment will earn, on a pre-tax equivalent basis, **between 4.31% - 5.80% more than a similar risk U.S. Treasury!** The only drawback is: The price of the bond will not go up if interest rates in general go down because of the current call. However, we think this lack of upside potential is more than offset by the superior downside protection from rising interest rates provided by the exceptionally high yields, and in the meantime, we should get an extra 4.31% - 5.80% per year. We believe this position will easily outperform almost all other investments on a risk-adjusted basis unless the market goes straight up.

Martin Luther Hospital, Anaheim, CA First Mortgage 7.75% due 7-1-07
Escrowed to Maturity in U.S. Government Securities
Implied AAA, non-rated by S&P and Moody's
First Call was 1-1-88 and every six months since then, to maturity
Sinking Fund payments began 7-1-99

Yield to	Date	Tax-Free	Pre-Tax Equivalent	Treasury	Spread	Duration
Call	1- 1-01	6.42%	10.62%	6.31%	431 b.p.	0.2years
Maturity	7- 1-07	7.32%	12.12%	5.94%	618 b.p.	5.1years
Avg. Life	10-16-04	7.10%	11.75%	5.95%	580 b.p.	3.5years

How It Stacked Up!

We purchased this bond at 100.616, which equated to a slightly negative yield of –0.405% to the then thirty day optional call on 12-3-99 at par (100), but we were willing to take the call risk because, if the bond were to make it all the way to maturity, it would yield 6.70% tax-free. To equate these yields to taxable yields (like a CD or Stock Market return), we translate them into pre-tax equivalent yields by taking only the federal tax (39.6%) into consideration and dividing by (1-tax rate). The pre-tax equivalent yields are: –0.67% to the immediate call and 11.09% to maturity.

Thus, if the bond gets called immediately, we lose a miniscule amount (almost nothing); but for every month the bond is outstanding, we get the large 7.5% tax-free coupon and the yield steps up. In fact, if the bond is outstanding for just one month past the immediate call date, the tax-free yield (annualized total return) is 3.56%, 5.89% pre-tax equivalent – the bondholder would have outperformed almost all investments on a risk-adjusted basis. The table below summarizes these calculations at the time of purchase.

A little over a year ago on 9-2-1999 we bought a bond similar to the "Buy of The Month":

Georgetown, California Public Utility Dist. G.O. 7.5% due 9-1-00
Insured by AMBAC and rated AAA by S&P and by Moody's
First optional call was on 9-1-95 at 102 and every day since then
No sinking fund

Yield to	Date	Tax-Free	Pre-Tax Equivalent	Treasury	Spread	Duration
First Call	12-03-99	-0.41%	-0.67%	5.13%	-580 b.p.	0.1 years
Two Months	1-03-00	3.56%	5.89%	5.15%	+74 b.p.	0.1 years
Three Months	2-03-00	4.86%	8.05%	5.16%	+280 b.p	0.2 years
Maturity	9-01-00	6.70%	11.09%	5.76%	+533 b.p.	0.8 years

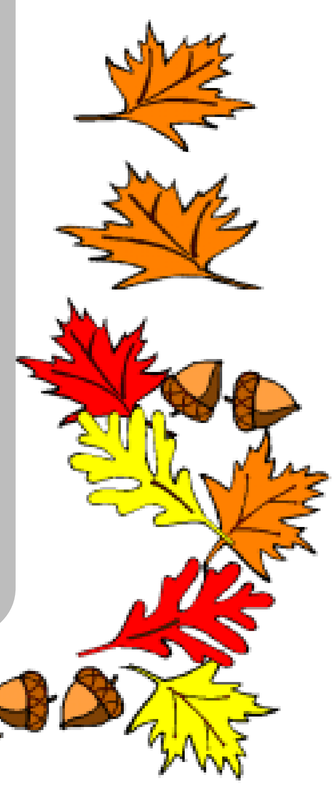
Notably, this position was outstanding to maturity (it was never called) **so we outperformed a similar risk U.S. Treasury by +5.33% annually for our holding period.** Our out-performance translates into an equivalent additional pre-tax income of $2,665 for one year. If the bond had been called immediately, the downside would have been that we would have under-performed for a month, but the more likely outcome was that the bond would stay outstanding longer, allowing us to outperform over many months, which we did. By the way, the average annual return of the stock market over a long period of time is about 11%, so we matched that at a very small fraction of the risk – and we knew going in exactly what the risk was and what the price would have been.

About Stamper Capital & Investments, Inc.

Institutional & High Net Worth Private Account Portfolio Management

Stamper Capital & Investments, Inc. specializes in fixed-income portfolio management strategies and implementation tailored to each of our client's specifications. In order to help our client's meet their long-term investment goals while maintaining their chosen lifestyle, we focus on maximizing risk-adjusted performance, that is, we seek to obtain the most return per amount of risk our clients choose to take. The majority of our fixed income portfolios are invested in municipal bonds, but we also offer strategies for taxable municipal bonds, corporate bonds, mortgage-backed securities, high yield corporate (junk) bonds and convertible bonds, you could say we like bonds! In addition to private account management Stamper Capital & Investments, Inc. manages The Evergreen High Income Municipal Bond Fund.

In the 16 years our Portfolio Manager, Clark Stamper, has been managing accounts in the fixed income markets, he has come to believe that maximizing investor's risk-adjusted performance is the most professional and prudent investment approach that can be implemented – and it works, as you can see from our top performance in the table on the back page of this newsletter. If you are an investor and would like to know more about how our strategies could benefit you, check out our website at: www.risk-adjusted.com or if you'd rather, give us a call 888-206-6295, we'd love to teach you how our strategies could help secure your wealth for your future.



Our Fund Performance

Stamper Capital & Investments, Inc. has managed the Evergreen High Income Municipal Bond Fund since June 1990. The fund has been repeatedly recognized by Morningstar as a top-performer among its class, with the highest ratings in the current overall, five and ten-year periods and the highest total return for the current year-to-date period. Stamper Capital & Investments, Inc. is a Registered Investment Adviser that specializes in the municipal bond market and is dedicated to helping investors earn the maximum return per the amount of risk taken. More information about Stamper Capital & Investments, Inc. can be found at its website, www.risk-adjusted.com.

Short-Term Municipal Bond Fund Category, Morningstar Rankings

Period As of 9-30-2000	E.H.I.M.B.F.* Rank	Number of Competitors	Category Average Total Return	E.H.I.M.B.F. Tax-Free Total Returns	Pre-Tax Equivalent Total Return[1]	Percentage Ranking	Morningstar Ratings[2] (5 stars possible)
Year-to-Date	**1**	99	3.54%	5.94%	9.80%		
1 Year	**2**	98	3.64%	4.93%	8.16%	Top 10%	☆☆☆☆
3 Years	**31**	89	3.34%	3.59%	5.94%	Top 20%	☆☆☆☆☆
5 Years	**3**	73	3.82%	4.90%	8.11%	Top 10%	☆☆☆☆☆
10 Years	**1**	15	5.06%	5.81%	9.62%	Top 10%	☆☆☆☆☆

*E.H.I.M.B.F. = Evergreen High Income Municipal Bond Fund, subadvised by Stamper Capital & Investments, Inc.

The above chart summarizes the performance of our mutual fund client. We also offer Private Account Management with different strategies and greater opportunities to earn higher yields. To give you an idea of the types of strategies available and the potential offered for our Private Account Management be sure to check out the sections "Buy of the Month" & "How it Stacked Up."

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1. The pre-tax equivalent total returns are figured based on the highest Federal income tax bracket of 39.6%, no state taxes were included in the calculation.

2. Morningstar gives its highest rating of five stars overall and for the five and ten years ending September 30, 2000 out of 1472 and 424 municipal bond funds, respectively to the $360million mutual fund we have managed for over ten years. **The top 10% of the funds in an investment class receive 5 stars.** The next 22.5% receive four stars. Our rating for the three-year period is 4 stars out of 1720 funds. Morningstar proprietary ratings reflect historical risk-adjusted performance as of September 30, 2000. The ratings are subject to change every month. Morningstar ratings are calculated from the Funds 3-, 5-, and 10-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee and tax adjustments, and a risk factor that reflects fund performance below 90-day T-bill returns. Past performance cannot guarantee future results.