

"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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### **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.

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**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

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