# Stamper Capital & Investments, Inc.

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

## REUTERS

### *FUND VIEW - Evergreen Muni Manager Sees More Risk than Reward*

By Dean Patterson | 12-16-2003

NEW YORK, December 16, 2003 (Reuters) - The U.S. municipal bond market faces two big problems in 2004: rising interest rates and falling credit quality, predicted **Clark Stamper**, manager of the $1 billion Evergreen High-Income Municipal Bond Fund.

**"Our watchword here is safety and downside protection,"** Stamper said in a recent interview with Reuters. "Even if everything goes right, how well will you do with everything priced so high?"

High-yield bond fund managers generally take on extra risk for higher yield. **Stamper** said he is more concerned about protecting principal because most municipal bonds are over-priced and do not adequately compensate investors for the added risk they take on.

**Stamper** has managed the fund since 1990. He said his fund is about as defensive as it has ever been.

**Stamper** has shown he can manage through a bear market. His fund was third best out of 866 muni bond funds in 1994, which was the worst year for bonds in the 1990s, according to fund tracking service Morningstar Inc. in Chicago.

The fund has posted a total return of 2.92 percent so far in 2003, compared to a category average of 2.07 percent, according to Morningstar, which classifies the fund as national short-term muni bond.

With U.S. economic growth picking up, many bond fund managers have begun to worry more about rising interest rates than state and local governments' ability to repay their debt.

**Stamper** remains more concerned about accelerating credit rating downgrades and defaults.

"The easier call for next year is stocks going down than rates going up, but I think both will happen," **Stamper** said.

Stocks and the economy are likely to weaken next year because the recovery so far has been built on consumer spending and consumer debt, which is not sustainable, **Stamper** said.

Making matters worse, municipal bonds in general tend to lag an economic recovery by about a year in terms of improving credit quality, analysts said.

"Our credit quality is through the roof right now," **Stamper** said, adding that his fund's average credit rating now is AA. In the past, the average has been as low as BB.

He also predicted a major decline in real estate prices, which would put a damper on local government revenues via property taxes.

"There are many things to be wary of," he said. "As a portfolio manager you can take that irrational ride for a while but you have to get defensive sooner or later."

State and local governments are also grappling with significant public pension shortfalls that they will not easily fix, **Stamper** said. Issuing pension bonds to make up deficits merely pushes the problem into the future, he said.

**Stamper** said he isn't a permanent bear and is willing to take chances when yields are high enough to compensate for higher risks.

Even in the current environment, **Stamper** is willing to invest in parts of the muni market that other funds managers would not venture into.

For example, **Stamper** has been an aggressive investor in tobacco bonds. The complex bonds are backed by future payments under a settlement 46 states reached with the four biggest U.S. cigarette companies.

Many investors shy away from the high-yield bonds because they worry about future litigation weakening the cigarette companies further, as well as declining sales.

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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.

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