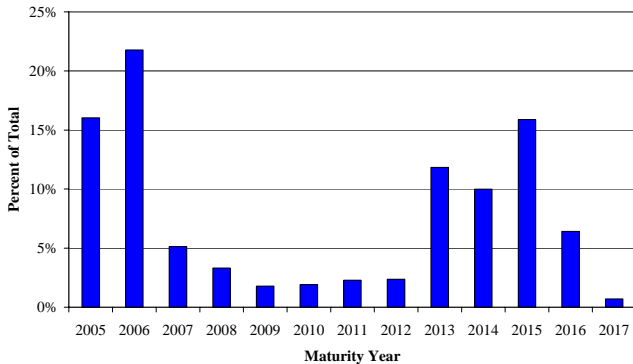


October 2004

The October surprise for fixed income was record oil prices. The bond market continued to follow oil prices closely as an indication of the economic impact of the higher fuel costs. The municipal yield curve continued to twist with one-year yields rising to 1.80% from 1.63% at the end of September and ten-year AAA yields falling to 3.40% from 3.47% last month. For 2004, the 10-year yield is unchanged from the end of 2003 while one-year yields rose 69 basis points (+0.69%) and five year yields rose 25 basis points (+0.25%). The flattening yield curve is reversing the extremely steep curve we saw toward the end of last year.

Our portfolio strategy has remained constant with portfolios short of target duration and in a maturity barbell. We continue to find better value in short maturity and 10-year issues than in intermediate maturity bonds. The market conditions that are causing this should continue into the first half of 2005.

Purchases in October 2004



Taxable Bond Portfolios at Breckinridge

Breckinridge has managed taxable portfolios for some of our clients since 2002. During the last year, we have seen an acceleration of interest in this product. The accounts we manage include individual retirement accounts, foundations and endowments. The Breckinridge approach is an investment process using taxable municipal, Treasury and US Agency bonds to build a high quality portfolio. Taxable municipal bonds generally provide better quality and higher yields than comparably rated corporate issuers.

Taxable municipal bonds are bonds from typical municipal bond issuers for private purposes needs. The issues include General Obligation bonds to fund pension obligations, municipal agency bonds repaid by for-profit corporations or hospitals, and multi-family housing bonds for apartments or developments. One

advantage of taxable municipal bonds is they are taxable at the Federal level but are generally tax-exempt at the state and local level if issued within the investor's state of residence.

Taxable municipal bonds offer competitive spreads over corporate bonds but generally have less risk of credit loss. For example, General Electric Capital Corporation (Aaa/AAA) issued a 3¾% bond due 12/15/09 on October 26, 2004, at a yield of 3.80%. Toms River, NJ, School District issued a (Aaa/AAA insured, AA- underlying) 3.82% bond due 7/1/09 at par. For a slightly higher yield, the taxable municipal bond offers less risk according to a study by Moody's Investor Service from November 2002. The report states:

- Average credit loss rates on Moody's-rated municipal bonds have been extremely low, in fact, lower than the loss rates on Aaa-rated corporate bonds.
- General obligation (GO) and essential service revenue bonds have been particularly safe investments. No Moody's-rated issuer defaulted on any of these securities during the sample period.

We follow the same investment parameters in purchasing the taxable municipals as we do for our tax-exempt portfolios. We focus on General Obligation and essential service revenue bonds with high quality credit ratings. Generally, we will only buy bonds that are rated A or better without bond insurance. Our portfolios are managed to an intermediate or aggregate benchmark. Below is a typical asset allocation for our taxable accounts.

Sector Allocation of Typical BCA Taxable Account

