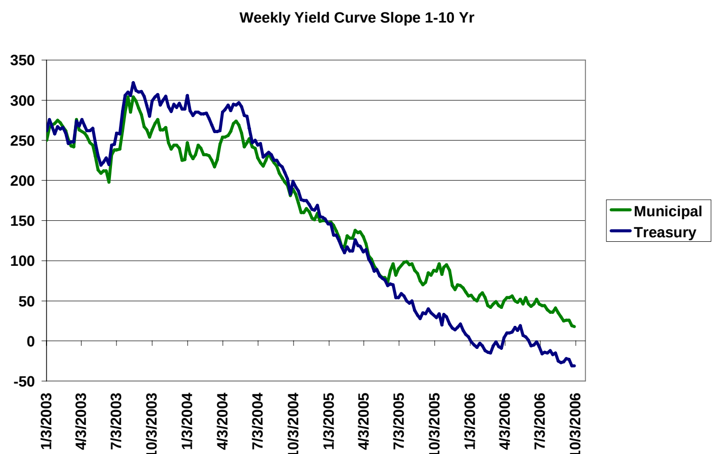
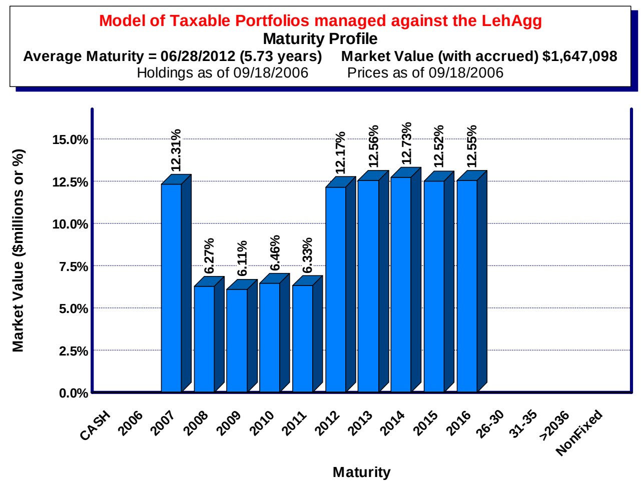
In September, fixed income markets continued the third quarter rally, only selling off slightly in the last week of the month. For most of the quarter, economic reports supported the Fed holding or lowering short-term rates. At the end of the quarter, a surprisingly high New Home Sales coupled with manufacturing growth reported by the Richmond and Chicago Federal Reserve Regions caused the markets to debate whether rates would be cut before 2007. Interestingly, the yield curve has continued to flatten through the third quarter. The Treasury curve has inverted, meaning the 10-year yield is lower than the 1-year yield, which is a commonly accepted signal that the economy is moving toward a recession. This inversion may also help explain the rise in home sales because mortgage rates have dropped 45 basis points over the quarter from 6.86% to 6.40%, according to Federal Reserve reports. The other major inflation story has been a dramatic drop in the price of oil and gasoline. Oil prices fell from a high in July of $78.40 per barrel to close at $62.70 per barrel. According to AAA, the average price of gasoline declined during the third quarter from a high of $3.02 per gallon to $2.31 per gallon. This combination of lower long-term interest rates and lower energy prices is leading some economists to believe that the economy will strengthen due to higher consumer spending from these savings.



We continue to target our portfolio durations neutral to slightly long of their benchmarks. For the five-year benchmarks, this means a targeted duration .10 to .15 years longer than the benchmark. We are looking for the best value on the curve, but the maturity structure has become much more flexible as the longer-term rates have flattened further. We still expect the next major yield curve shift should be to a steeper yield curve from the current historically flat curve, but this move may not occur until the FOMC begins to lower the Fed Funds rate. As mentioned above, lower rates may be delayed in 2007.

Breckinridge Taxable Accounts

This month we are adding a special section to review the Breckinridge taxable bond strategies. Our taxable fixed income assets under management have grown to over $160 million. The strategy is to produce long-term returns in line with the Lehman US Aggregate Index with less volatility using a mix of US Treasuries, US Government Agencies exempt from state tax, and taxable municipal bonds. The targeted investor would be individuals with low tax liabilities, small tax-exempt foundations, and as diversification for other tax-exempt fixed income accounts.



The model portfolio for the taxable strategy is reflected above. Similar to our tax-exempt strategy, we focus on creating a bulleted portfolio by the end 2007 using short maturities and 7-10 year bonds. We are avoiding the steep inversion from one-year to four-year maturities because we do not expect a significant steepening in the yield curve for six to twelve months. These short intermediate maturities pay lower current yields and lack duration to benefit from the delayed steeper yield curve. By focusing on slightly longer bonds, the portfolio should "roll" into a bulleted structure. This will save transaction costs to restructure the portfolio during the next year.

The duration of the model portfolio is slightly short of the Lehman US Aggregate. Since we are not using mortgage-backed or corporate securities, which make up a large portion of the index, we do not have as much call or event risk. Given the inversion of the yield curve, we are holding a significant amount of short maturity paper to collect the superior income while keeping a stable value to reinvest longer as short-term yields become less attractive.

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