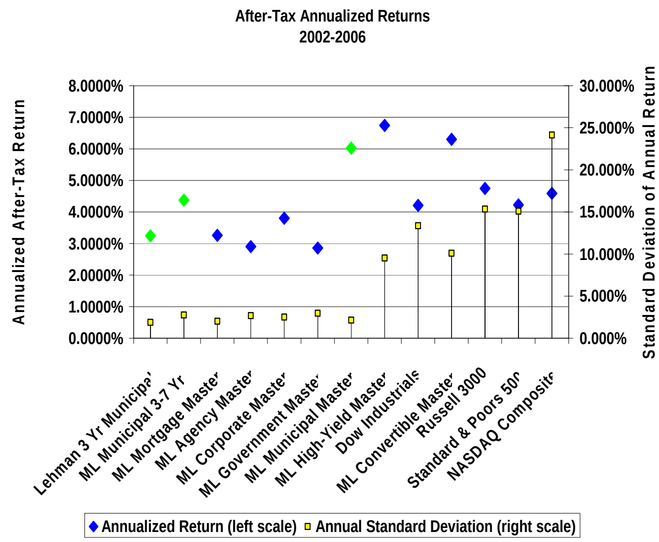
The fixed income markets continued to trade off throughout the month as economic data gave mixed signals about the direction of growth and inflation. Employment growth was moderate with unemployment rising to 4.5% and existing home sales down -0.8%. Offsetting this were stronger Leading Indicators up 0.3% and inflation slightly higher with the Producer Price Index (YOY) up 1.1% and the Consumer Price Index (YOY) up 2.5%. The market now believes the FOMC may be on hold through most of 2007. Municipal 10 year yields rose 20 bp to 3.86% and Treasury 10 year yields rose 12 bp to 4.82% in January. In addition, the new issue volume of municipal bonds was $31.2 billion, up 67% from January 2006. The volume growth was due to several large issues like a $3.6 billion New Jersey Tobacco issue that did not meet our portfolio requirements.

Our portfolio strategy has changed slightly over the month. We continue to believe that the yield curve should move steeper by the end of 2007 or first quarter 2008 as the FOMC begins to lower short term yields. The portfolios are being invested more heavily in the 2012-2013 range than last year using current maturities and lengthening swaps. Our preferred bond structure is callable bonds with two to three years between the call and maturity to limit extension risk and gain exposure to bonds less likely to be called efficiently. The spread for a BAA bonds over a AAA bond in 10 year has dropped to a new low of 37 bp. We believe investors are not being adequately paid for the risk of the lower rated bonds and this is an opportunity to upgrade portfolios.

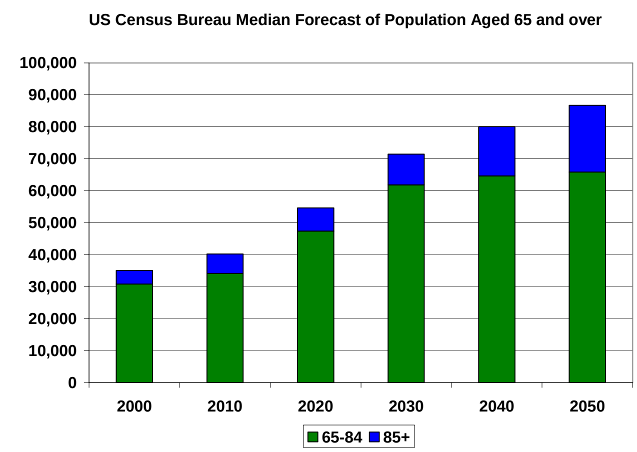
For Taxable and Taxable-Tax Exempt Hybrid accounts, we are pursuing a similar strategy of moving duration longer using municipal bonds to increase duration and buying Treasury notes and Agencies for liquidity. We have added short callable Agencies to pick up yield. We are filling in the maturity structure in 2011-2013 to prepare the portfolios for the eventual steepening of the Treasury yield curve.

### Fixed Income in Asset Allocation

After equities recovered in 2006, some investors began to question the asset allocation to bonds. Sometimes it is useful to look at why bonds make sense as part of a portfolio of investments. The first chart shows the long-term after-tax returns for various fixed income and equity indexes for individual investors in the top marginal tax bracket from 1994 to 2006 sorted by volatility of the annual returns. The tax and risk adjusted returns for intermediate municipal bonds provide a balance for equities over the period. The combination gives investors a growth component over the long term and an income component for reinvestment or earned income replacement.




Income issues are becoming more important from a demographic perspective. Analyzing the US Census Bureau estimates of population growth show increasing population 65 years and older (see chart below) both as a total and as the share of total population (12.4% in 2000 to 20.5% in 2050). The need for income will increase and the length of time the income is needed will increase.




The returns and the demographics point to the need for a balanced, individualized approach to asset allocation that would include the income and capital preservation of an intermediate fixed income portfolio.

### Expanded Portfolio Management Team

Breckinridge Capital Advisors is pleased to announce the addition of Susan S. Mooney as Senior Vice President and Portfolio Manager. Previously Principal and Director of Fixed Income at Freedom Capital Management, Susan brings over 20 years of experience in the fixed income markets to Breckinridge.