MMA The Power of Independence

SEPTEMBER 2010

GAIN INSIGHT ON HOW TO NAVIGATE THE COMPLEX MUNICIPAL BOND MARKET

ABOUT US

Municipal Market Advisors is a leading independent strategy, research and consulting firm in the municipal bond industry. MMA's subscription services provide *clarity* and *insight* into the complex world of municipal bond investing. Our independence facilitates objective analysis and distinctive views of the issues confronting investors so informed investment decisions can be made.

WHAT WE OFFER

- MMA's subscription services provide timely independent unbiased market coverage delivered intraday, daily and weekly via internet, email, Bloomberg and PDA.
- Cost effective solution to monitoring and understanding "The Market".
- Interaction with regulators, Congressional leaders and Central Banks provides unique insight.

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For Full Muni Outlook and additional information on how our advisory or subscription services can add value to your portfolio, please contact Steve McLaughlin at 973-701-1111 or log on to www.mma-research.com and sign on for a free trial.

MARKET SUMMARY

MUNICIPALS WEAKENED, AS HEADLINE RISK INTENSIFIED

Municipal investors were confronted with bold headlines challenging the safety of their participation in the sector. Harrisburg PA's flirtation with default dominated the first half of the month, while Meredith Whitney's foray into the municipal market amplified investor concerns of a potential "sub-prime" crisis in the public sector. Interspersed were observations and attention by the SEC and FINRA on municipal issuer disclosure laxity that may be leading to retail investor misunderstandings of their investment risk. Historically, many of the most adverse periods for municipal bond investors have been associated with the sharp and emotional withdrawals of individual investors from mutual funds that exposed the limits of the secondary market to provide execution near expected evaluations. Despite municipal's headline risk and fund managers' publically targeting the investment risks of CA, IL and NJ (and ratings services' negative outlooks for IL and NJ), investors had not exited municipal investments. However, weekly fund flows into municipal bond funds slowed, falling below $1B. The headline risk also did not inhibit high-yield fund performance as representative funds of the sector produced improved returns for the month, **Figure 1**. Still, the demand/supply ratio may not remain favorable as it has for the past year. The month reinvestment for the balance of the year is not abnormally strong as 2010's flows are comparable to the average of the past year, **Figure 2**.

Municipal issuance was $31B in September, of which $8.2B were Build America Bonds (BAB's). The tax-exempt issuance 12-month total fell below $300B, a total comparable to 1Q02. Municipal performance was negative for the month as the positive price trend for the tax-exempt sector turned negative on September 3, for the first time since June 23. Despite a brief week of stability toward month-end, the negative price trend returned on September 30. Seasonally, October has not been biased positively over the past 15 years, despite occasional months of strength. September ended with considerable ambiguity as aggressively competitive-bid primary high-grade loans (NC GO and NYC UDC) were not distributed easily at time of the sales. Concessions emerged in the secondary and on September 30,

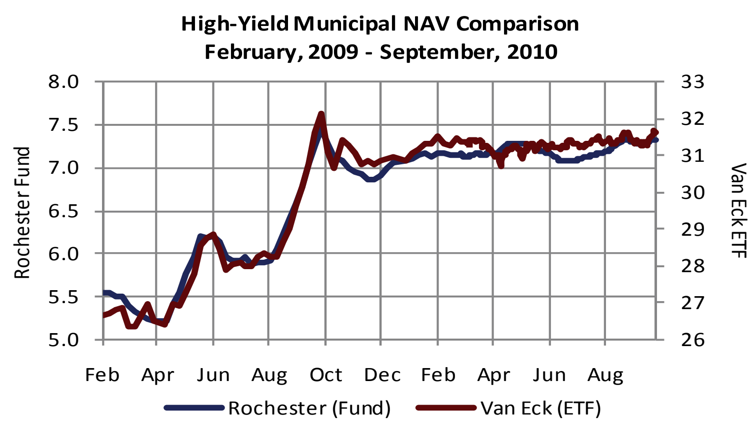


Figure 1: Despite the amplified headline risk, municipal high-yield funds reflected positive returns and stability. Higher yields appeared to placate investors.

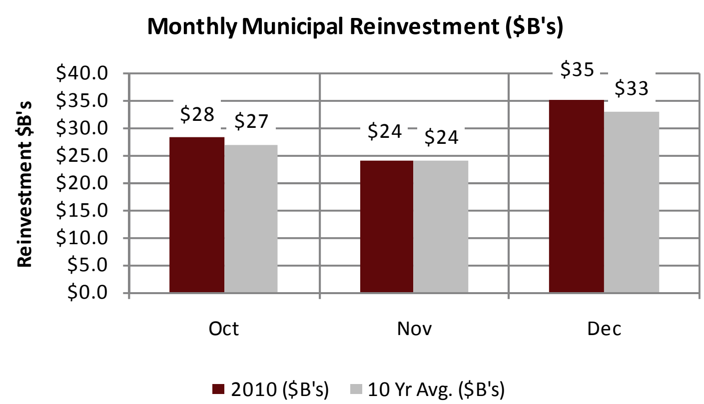
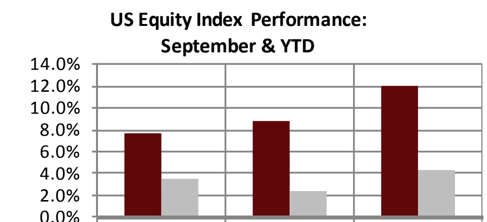


Figure 2: Municipal monthly reinvestment for 4Q10 is consistent with 10 year average.

primary sales by NJ and Salt River Authority, AZ reflected significant yield increases from initial retail sales periods. Individual investors also were enticed by a plethora of corporate bond sales, a surging US equity market (***graph/table below***) and larger dividend yields

MUNI OUTLOOK FOR SEPTEMBER 2010



	Dow	S&P 500	Nasdaq
September	7.72%	8.76%	12.04%
YTD	3.45%	2.34%	4.38%

from US companies. Combined with tax-exempt yields at their 40-year absolute yield lows investor divergence toward alternative investments was facilitated. In addition, gold reached a record high in September. Fundamentally, data has yet to provide investors with an unambiguous assessment of the US economy. Even though the NBER declared that the US recession ended June 2009, there was skepticism as to the new recovery's duration. FOMC officials also contributed to uncertainty with officials' comments reflecting an absence of consensus toward policy and future quantitative easing (QE). The November midterm elections have increased in their importance regarding the future extension of the Bush tax-cuts as well as that of the Build America Bond program.

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