



Are Seasonal Forces Causing Yields to Rise? 11/10/10

While interest rates recently exhibited sharp daily increases, RSW's long term market outlook remains unchanged, as we believe that we will continue to experience a prolonged period of relatively low interest rates.

Over the last 5 years, many pundits discussed the possibility of impending hyperinflation, and the resultant drubbing that fixed income investors would receive in such an environment. While there will always be interest rate shocks in both directions, we believe rates will remain relatively low for the longer term, as deflation, not inflation, worsens. The CPI remains at 50-year lows, and despite record amounts of liquidity being pumped into the economy, we (and the Fed as evidenced by last week's QE2 announcement) believe deflation remains as the primary force driving the economic future.

Companies, it seems, have increased productivity, i.e. doing more with fewer resources. This higher level of efficiency has created a great deal of slack in the domestic economy and has caused downward pressure on wages. Low capacity utilization levels in the industrial sector, and high unemployment are further evidence of an ongoing deleveraging process which should continue to prove deflationary. While current commodity prices, including food and energy, are increasing in price, we believe that ultimately these short-term increases will exacerbate future deflation; i.e., increasing the percentage of disposable income consumers are forced to spend on necessities, will lessen the amount they can allocate towards future discretionary spending, in turn hampering future growth.

In summary, the economy continues to face stiff headwinds. It remains our view that the current recovery is too fragile to handle a prolonged period of higher rates. Should interest rates work their way higher through mid-December, we believe this too will act as a further impediment to sustained economic growth. In essence, it is those higher rates that will act as a "self breaking mechanism" that should also serve to continue to facilitate a lower interest rate environment for a prolonged period.

What does this mean for RSW Investors?

At this juncture, it seems likely that the municipal market will continue to experience further price pressure into mid-December. Typically, from September into December, demand for tax frees is relatively low and new issue volume increases. The combination of these forces tends to push yields higher (prices lower) until this seasonal activity passes.



Historically, the mid-December through January, the seasonal patterns which tends to bring higher prices (lower yields), as new issue volume declines and demand rises on the back of a relatively large level of coupon payments flowing to existing bondholders. As you know, the municipal market is somewhat "quirky" and does not always correlate with the Treasury bond market as these technical forces are unique to municipal bonds. Like always, and like other markets, prices will tend to ebb and flow in both directions and rarely move in a straight line.

We continue to be positioned defensively, and would view any spike in interest rates as short-term in nature and an opportunity to begin extending average maturity and call structure at more attractive yield levels in those portfolios where appropriate.

Robert S. Waas Managing Member	Robert K. Coates Senior Portfolio Manager	Matthew T. Werner Portfolio Manager	Mark J. Tenenhaus Director of Municipal Research	John A. Carlson Director of Business Development	Marites A. Vidal Data Analyst	Randy J. Fox Operations Associate	Jon P. Skoog Operations Associate
--------------------------------------	---	---	---	---	-------------------------------------	---	---

This document is not intended to be a solicitation of Firm interests. Past Performance does not guarantee future results. Investments are subject to risk and may lose value. The information is not warranted as to completeness or accuracy, nor does it serve as an official record of your account. RSW Investments does not render legal, accounting, or tax advice. Please consult your tax or legal advisors before taking any action that may have tax consequences.

This report has been prepared by, and reflects the views as of this date of, RSW Investments, LLC [RSW hereafter]. RSW's views and opinions are subject to change. Investors should consult their attorney, accountant, and/or tax professional for advice concerning their particular situation.

All views expressed in the research report accurately reflect the Managing Member's personal views about any and all of the subject topics. No part of the Managing Member's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Managing Member in the research report.