S&P to U.S. Government: "Where's the cuts?" August 7, 2011

Capping off a wild ride in the financial markets, S&P downgraded its credit rating of U.S. Government Obligations, on Friday night, August 5th, from AAA to AA +.

The details associated with this downgrade, and our thoughts are as follows:

- As recently as last month (July), S&P, in putting the "AAA" rating of U.S. Treasury obligations on Credit Watch with negative implications, warned that there was a 50% chance of a downgrade to the "AA" range. Subsequently, on August 5th, S&P lowered the rating to AA+ and changed its outlook to negative. Last week, both Fitch and Moody's affirmed their U.S.-based "AAA" ratings.

- Specifically, S&P stated: "The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics". We note that during the month of July, despite warnings of downgrades from all 3 major bond rating agencies, that~~,~~ on average, both municipal and Treasury bond prices appreciated.

- S&P, in its July commentary regarding the negative watch assigned to U.S. Treasury obligations, stated that "*ratings on AAA rated states are not affected"* by this action. At RSW, we therefore, do not foresee, or anticipate, any wholesale credit downgrades, or negative outlooks assigned to the overall municipal market from this action.

- We do anticipate that S&P could ultimately "in-step" downgrade municipal bonds that are solely secured by federal obligations, such as bonds pre-refunded and secured by federal obligations, and other bonds (i.e. various housing issues) that carry some form of federal enhancement. Also, we suspect that state issued "Garvee Bonds", that are secured either wholly or in large part by contracted transfers of federal highway funds derived by gas taxes, could be reviewed by Standard and Poor's. Additionally, in time, various hospital bonds could be impacted from any severe changes to Medicaid and Medicare.

- From a technical point of view, Y-T-D new issue municipal bond volume of $141 billion through July, is a staggering 40% less than issuance for the same period last year. This decline in issuance should also help keep municipal bond yields within a tight trading range in the short-term. In many large, fiscally-challenged states, including California, Florida, and Illinois, new-issue volume is down by an even more dramatic amount, ranging from 45% to 55%, when compared to last year.

- Also, we believe that municipal market participants have already witnessed the worst of the economic cycle during the recent recession. We have watched credit ratings remain relatively strong, as the majority of states and local governments, which unlike the federal government, "do not have the ability to print money", make significant budgetary cuts (in excess of $500 billion), enhance revenues, and start to tackle longer-term issues such as pension reform. Further, we believe that municipal investors, who have previously survived the late-year 2010 municipal market disruption, bolstered by the Meredith Whitney "Sky is Falling" 60 Minutes call, will not over-react to the S&P federal obligation downgrade.

- There remains the possibility that S&P's action could be the event that triggers meaningful solutions and reforms at the Federal level. Often, we have said that politicians usually defer making politically unpopular decisions including slashing budget expenditures, or raising taxes. This mindset breaks however, when dramatic events force change. It is at these times when government officials miraculously seem prepared to implement some difficult, but necessary measures. Whether being nudged or shoved, this process now appears to be finally underway at the federal level.

- Lastly, we remain mindful that the credit ratings of virtually all sovereign governments are currently under assault. For example, in parts of Europe, a strong competitor for the globe's safe haven status, credit and debt problems are even more pronounced. Greek, Irish, and Portuguese debt are now rated at junk levels, which further serve to symbolize the disparity between the financial stability of the strongest global economies, compared to weaker members.

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	Brian E. Pawl Operations Associate

This document was prepared on 8/7/11 and 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.