BERNARDI SECURITIES, INC.

PRESIDENT'S LETTER
MUNICIPAL MARKET UPDATE

Interest rates are higher today than at the start of the year as shown below:

	6/30/2007	12/31/2006
10-year taxable Treasury bond	5.02	4.70
3-year taxable Treasury bond	4.88	4.73
10 year, "AAA" rated municipal bond index (MMD)	4.07	3.73
3 year, "AAA" rated municipal bond index (MMD)	3.81	3.54

As you can see, yields on 10-year bonds have increased more than yields on 3-year issues. This means that paper losses on longer maturity portfolios have been greater than losses on shorter-term portfolios.

But this upward move in mid and longer term interest rates has not been a steady rise as the interest rate market has reversed itself along the way.

As we all have experienced at one time or another, the power of perception over reality is startling at times.

Shakespeare had it right, perhaps when he wrote in Hamlet, "There's nothing either good or bad, but thinking it makes it so."

So it has been with the bond market over the past few months.

Today (July 18, 2007), the 10-year taxable Treasury bond yields 4.99% and a long-term "AAA" rated municipal index yields 4.54% (taxable equivalent yield of approximately 7.00%). On June 12, the 10-year Government Bond Yield reached 5.29%.

What a difference one month makes.

The bond market rallied (higher prices/lower yields) somewhat in the final week of June as investors become understandably concerned by the credit problems in the subprime market and many of the hedge funds that are heavily invested in this sector. Establishing accurate prices for the infrequently and illiquid securities that comprise many of the underlying hedge fund investments is difficult and has created problems that may well worsen. This fact is magnified if the hedge fund's lender seeks additional collateral for its loan to the fund, or worse, demands repayment. If sales occur, they are at deep discounts translating into big losses for the funds. This is what has occurred recently at a hedge fund or two.

Mid maturity bond yields are at attractive rate levels and many bond investors that had been sitting on the sidelines are now active buyers of bonds.

Good quality, mid-term municipal bonds currently offer yields of 4.25% (6.50% taxable equivalent yield for a top income tax bracket taxpayer) or greater. Shorter-term municipal bond yields at 4% are now available. We haven't seen these yields in some time.

Clarity is rarely a word used to describe the interest rate picture. I cannot recall a time, however, when contradictory thoughts on this topic have been so prevalent and subject to change. Predicting interest rate movements long term is a difficult task at best and beyond the skill level of most. That is a game we leave to others. At Bernardi Securities, Inc., we are adept at anticipating short-term interest rates moves and we manage our client bond portfolios accordingly.

This is what we recommend given all of the interest rate uncertainty:

1. Review your Investor Profile document and make any needed adjustments. We will assist you with this important step if you need some guidance.

2. Continue to ladder your bond investments over a time period that is suitable for you. At any given moment, certain maturity ranges on the yield curve offer better value and this is where you concentrate your efforts.

3. Always seek market anomalies that offer better than average value. These opportunities are usually widespread, given the uniqueness of the municipal market.

4. Review your portfolio for swap opportunities now. If you can add value by realizing losses, it usually makes good economic sense to do so. Look to bump up your portfolio yield without radically altering the portfolio make up. Ideally, get the swaps completed in the third quarter rather than waiting until year-end when most other investors begin to focus on swaps. Avoiding the year-end rush tends to result in better swap opportunities.

New issue municipal bond supply continues to grow at a good rate, although the higher interest rates will reduce the number of refinancing issues. Outstanding tax-exempt debt is approximately $ 2.5 trillion according to recently released first quarter Federal Reserve data. This is an increase of approximately $210 billion from the same period last year. Outstanding debt has grown every year since 1996 as the infrastructure needs of municipal governments continues to expand. Moreover, generally speaking, municipal and state treasuries are in sound financial positions allowing them to be more creative with debt issuance.

Individual investors remain the largest holders of municipal bond debt owning $876 billion. This represents approximately 35% of the market. The importance of the individual investor in the market place is critical to its continued growth and success. Municipal issuers realize this fact as they continue to structure more and more of their issues to appeal to this significant group of investors.

The P3 (public, private partnership) market will continue to expand in the coming years. This potentially is a huge growth market because the public sector infrastructure needs and the associated costs are significant. Estimated future costs exceed historical expenditures by billions of dollars. Many people in our transportation industry feel that the nation lacks the traditional resources to deliver what is needed to provide the mobility that the public expects. Certain states and municipal governments are studying what has been done in Australia and the United Kingdom in this area. Several have already completed deals.

While P3 deals may make economic sense in certain instances, it is certainly not a one size fits all solution.

The U.S. municipal bond market is far and away the most advanced and efficient non-sovereign government bond market in the world. This fact gives us all greater freedom and independence from the national government in our daily affairs. Furthermore, the efficiency of this market gives states and municipalities access to relatively low cost capital. It is an important, well run part of our overall economic system. Study and research Western Europe or South American municipal finance processes if you have any doubt at all.

It has been an exciting and eventful six months for the bond market. We look forward to the second half of 2007.

Thank you for your continued confidence. Please call us with your questions and comments.

Sincerely,

Ronald P. Bernardi
President and CEO
July 2007