PRESIDENT'S LETTER

I thought it would be helpful, as we pass mid year, to write about a number of events and issues that are pertinent to today's bond market. Many of the events of the past six months have been unprecedented in my nearly 30 years in the bond business. Events have unfolded over the past half year that I never thought we would witness: significant rating downgrades of several major monoline insurers, the rating company credibility issue that has ensued, the collapse of Bear Stearns, the complete and very swift exit of UBS from the municipal bond market and the collapse of the $300 billion auction rate security marketplace.

These organizations were all pillars of our marketplace. Today, many of these companies are mere shells of their former selves; several are in ruins and none of them will regain their former stature any time soon. Recently, I met with the Mayor of a long time issuer client and told him, "the municipal bond market landscape of the past decade has been inalterably changed so don't waste time and energy reminiscing on what used to be….those days are gone."

For most of the past decade, it was a seller's market. Issuers were able to borrow often and at attractively low rates. There was plenty of capital chasing a fairly fixed supply of bonds. Hedge funds became significant market players over the past several years competing with the traditional investors: bond funds, banks, insurance companies and high net worth individual investors. As the demand for municipal bonds grew, underwriting spreads charged by dealers and interest rates charged to the issuers declined. It was a golden era from the issuer's perspective.

Market fundamentals are different today.

UBS and Bear Stearns have abandoned the municipal bond marketplace. These are two significant events for this market equal in impact to Salomon Brothers abrupt exit in 1987. Removing two significant bidders from a marketplace does not bode well for issuers and other sellers of bonds. Many other large financial organizations are currently assessing where best to allocate their limited capital. The sleuth in me is trying to figure out which big investment firm and international banking institution are going to exit the municipal bond marketplace next.

The monoline bond insurance industry is in turmoil. A number of the insurance companies are in dire straits. The healthy insurers are not bashful about charging issuer clients premiums 2, 3, 4 times what was normal not too long ago. Today, the value of bond insurance is questioned in many more instances than in past years.

The rating agency companies are under intense scrutiny given their many recent rating missteps. Many bond professionals and investors, who in the past treated all insured bonds equal from a credit perspective, now realize the serious errors made. They finally understand that underlying credit quality does matter, that it is important to know the purpose of the debt issued, its ultimate obligor and its commitment to pay.

As a result of all of this, the market has turned on its ear. These events have created great uncertainty and with that, opportunity for some. It is now a buyers market and will remain one for the foreseeable future.

Clearly, there will be price rallies and price sell offs in the months ahead, but the underlying tone will be bullish from an investor's perspective and bearish from the seller's perspective.

We continue to work hard and diligently to navigate our clients' managed portfolios through this turmoil. We are pleased and proud of the results to date, but much work remains.

Our clients did not experience the anguished inaccessibility of the "money market alternative" auction rate security debacle. We decided years ago to avoid this sector and our clients' portfolios did not rely on this sector as a money market alternative. Instead, we relied on a different, more stable and reliable sector of the bond market. Admittedly, we were out of fashion until recent times, but following fashionable trends has never been a strong suit of ours.

The significant rating downgrades of several monoline insurers is unsettling, but not yet catastrophic in our view. We have always researched and understood the fundamental, underlying security of municipal bond issues on our approved credit list. Our credit research process is certainly not perfect, but it has worked well for our clients for decades.

We want you to know that Bernardi Securities, Inc. remains committed to the municipal bond marketplace. We are recognized as a leader in this industry and many of the market events of the past six months have tested the mettle of this leadership. We are competing on a set of distinctive ideas and are continually trying to improve the comprehensive bond portfolio research and management process that we deliver to you.

We are approaching our 25th anniversary and the challenges of this market and corresponding opportunities have never been greater.

Our firm specializes in this marketplace. This is "what we do", as I like to say. This specialized commitment coupled with firm stability and integrity, our investment sensibility and the innovative talents of our team has produced above average performance and service levels for our clients for many, many years.

On behalf of our entire organization, I thank you for your commitment to us and your continued confidence in us and our clearing firm Pershing LLC, a wholly owned subsidiary of Bank of New York. We greatly appreciate your continued willingness to recommend us to your friends and colleagues and look forward to working with you in the years ahead.

Lastly, I have included a reprint of an article that was written in the spring of 2000. I think it serves as a nice reminder to all of us as we are about to celebrate our nation's birthday. I wish you and your family an enjoyable July 4th holiday.

Sincerely,
Ronald P. Bernardi
President and CEO
June 26, 2008