BERNARDI
SECURITIES, INC.
105 West Adams Street, Suite 1900 • Chicago, Illinois 60603
312-726-7324
fax: 312-726-1431
e-mail: bernardi@bernardisecurities.com
www.bernardisecurities.com

Should I buy a 6-month T-Bill to earn 4.53% or a 10-year T-Note to lock in 4.50%?

Consider this: In February 1996 you could have bought a non-callable, 10 year Treasury Note with a 5.81% yield while at the same time you could have purchased a two-year Note with a 6.06% yield.

Which made more sense? When the two-year Note matured in 1998, the yield on a replacement two-year Note had fallen to 4.92% and the ten-year Note yield was down to 5.57%. Had you locked in the 5.81% two years earlier, you would have avoided the re-investment trauma and the added transaction costs that occur when you structure a portfolio with only short-dated paper.

Obviously, there were and currently are numerous other investment vehicles paying higher rates of return but I used the Constant Maturity Treasury yields for sake of consistency and comparison. The risk/ reward quandary holds true regardless.

Some Other Things to Consider:
1: All indications are that the Fed is nearly done: Traders expect the Fed to lift its overnight rate to 4.5 percent on Jan. 31, after 13 increases from 1 percent in June 2004, to keep inflation contained. There is a greater than 50 percent chance of an increase to 4.75 percent on March 28, interest-rate futures show.

2: The Fed gets a new Head: Ben Bernanke will succeed Alan Greenspan who will preside over his last meeting as Chairman of the Federal Reserve at the January 31st, 2006 meeting...the retirement party should be a doozie.

3. Re-introduction of the 30 year Treasury Bond: The U.S. Treasury will announce on Feb. 1 the size of its quarterly sales of three- and 10-year notes and 30-year bonds scheduled for the following week. It may amount to $48 billion, according to an estimate by Wrightson ICAP, the independent research unit of ICAP Plc, the largest inter-dealer broker. Will this supply raise or lower longer rates?

4: U.S. Debt sets record @ $8,185,315,076,347.87 (as of 1-24-2006) and yet core inflation remains under 3.00%. This is in large part tied to continuing purchases of U.S debt by foreigners. This includes Asian governments but also oil rich nations looking for a safe haven for all that cash we keep sending them. Their appetite holds down interest rates, artificially some say, which holds down borrowing costs and ultimately helps to hold down inflation--within certain limits.

5: Concerns about Terrorism remain: If bin Laden and his ilk can pull it off, the next terrorist attack on our soil is likely to be horrible. If such an event occurs, expect the economic fallout to be significant and expect lower interest rates.

What to do? If you are one of our Portfolio Management clients, nothing. We are constantly monitoring the markets for value and keeping watch on your portfolio to be certain our recommendations are consistent with your Investor Profile and Letter of Direction. If you are not one of our managed accounts, may I ask that you consider professional management and call your Bernardi Securities Investment Specialist. We have a process and a Team in place as well as several management options, tailor-fit to your specific needs.

We've included some information about the 2006 projected tax rates as well as a taxable equivalent yield table, credit ratings' agencies guide, bond insurers, etc. I hope you find all of this information to be helpful.

Jeffrey D. Irish – Vice President
January 2006