

Centerpoint Advisors Fixed Income Third Quarter 2008 Overview

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Overview

To say the third quarter was a historical one for the fixed income markets is certainly an understatement. Our markets witnessed the takeover of Fannie Mae and Freddie Mac by the government, the bankruptcy of Lehman Brothers, the bailout of AIG by the government, the takeover of Washington Mutual by the FDIC (with a subsequent sale of certain assets to JP Morgan) and the fire sale of Wachovia. As these events unfolded it became increasingly clear that our financial system was unwinding and heading for what appeared to be a crisis situation. In an effort to avert such a financial crisis, Secretary of Treasury Henry Paulson, proposed a plan to allow banks to sell their impaired mortgages to the government and free up capital which would allow them to continue to make loans. The plan, which was initially rejected by Congress, was approved by a majority vote last Friday. Only time will tell if the plan is successful.

Taxable Market

Within the taxable market we continue to see a strong flight to quality (see Diagram 1) with 3 month treasury bills trading at 91 basis points. One month LIBOR has moved to 3.93 at September 30th, reflecting the banking industries nervousness in lending to each other. On the credit side of the market, we continue to see a lack of liquidity with reasonable bids even for the strongest corporate names difficult to find. Spreads for 10 year corporate bonds have widened out significantly during the quarter in all sectors. As an example, Walmart 5.80s due 2/15/18 traded at approximately 235 bps above 10yr treasuries on September 30th, the same bond traded around 130 basis points above treasuries on June 30th.

Diagram 1: Key Rates as of September 30, 2008

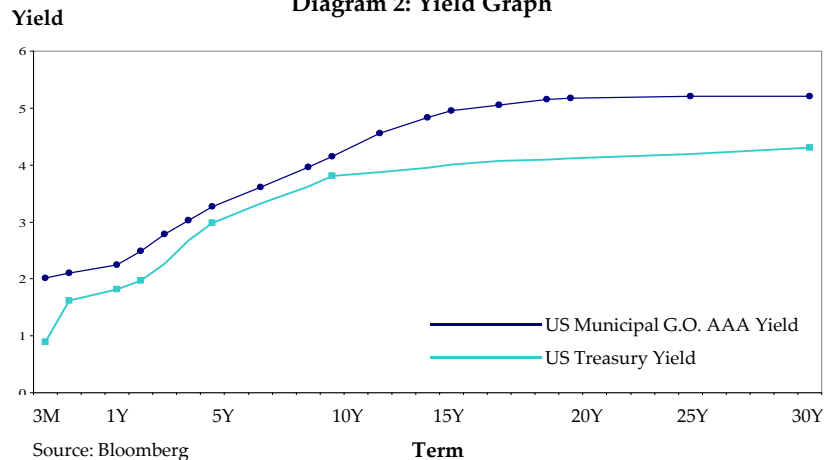
1 Month LIBOR	3.93%
3 Month T-bill due 1/2/09	0.91%
2 Year Treasury	1.96%
5 Year Treasury	2.98%
10 Year Treasury	3.83%
30 Year Treasury	4.31%
10 Year Massachusetts General Obligation	4.24%
Taxable Equivalent Yield*	6.89%
Federal Home Loan Bank (due 10/28/11, callable 4/28/09)	4.00%

* MA Taxpayer in 35% Federal Tax Bracket

Municipal Market

Municipal issues have had a difficult time recovering completely from the first quarter sell-off that resulted from auction rate failures and monoline insurer troubles. Municipal bonds continue to underperform treasuries as rates move lower in the latter. Municipal yields as a percentage of treasuries are well in excess of 100% across the entire curve (see Diagram 2). In absolute terms, 10yr State G.O. issues are at 4.15% for AAA rated paper (4% as of June 30, 2008.) A huge divergence now exists between highly rated general obligation issues and lower rated revenue issues. The overall performance of the municipal market over the next several months will be impacted by several factors including new issuance supply, credit rating actions, state budgets and economies, defaults and overall investor demand.

Diagram 2: Yield Graph

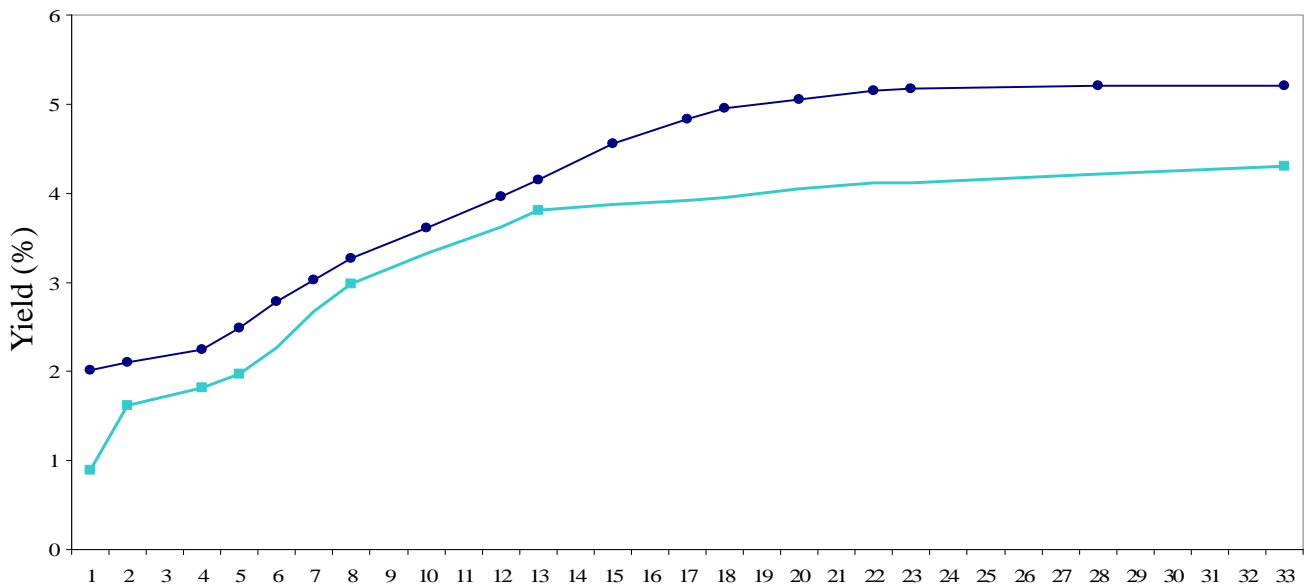


Our Portfolios

On the taxable side, we continue to maintain very high credit quality in our portfolios utilizing treasuries and select agency issues. While we may be giving up yield we recognize that there is virtually no way of telling where the next Lehman or AIG will appear thus wiping out bondholders. On the municipal side we have been focusing on state level general obligation issues as we feel these issues afford the best protection from a credit standpoint as well as stronger liquidity. When possible, we purchase pre-refunded bonds backed by U.S. treasuries (in many instances these issues trade at levels cheaper than the corresponding treasury.) Our fixed income portfolios are positioned along the curve based upon the needs of our individual clients along with our outlook for inflation.

As of August 4, 2008

U.S. Treasury Bonds & Notes Yield Curve



3M
25Y

1Y

3Y
30Y

5Y

7Y

9Y

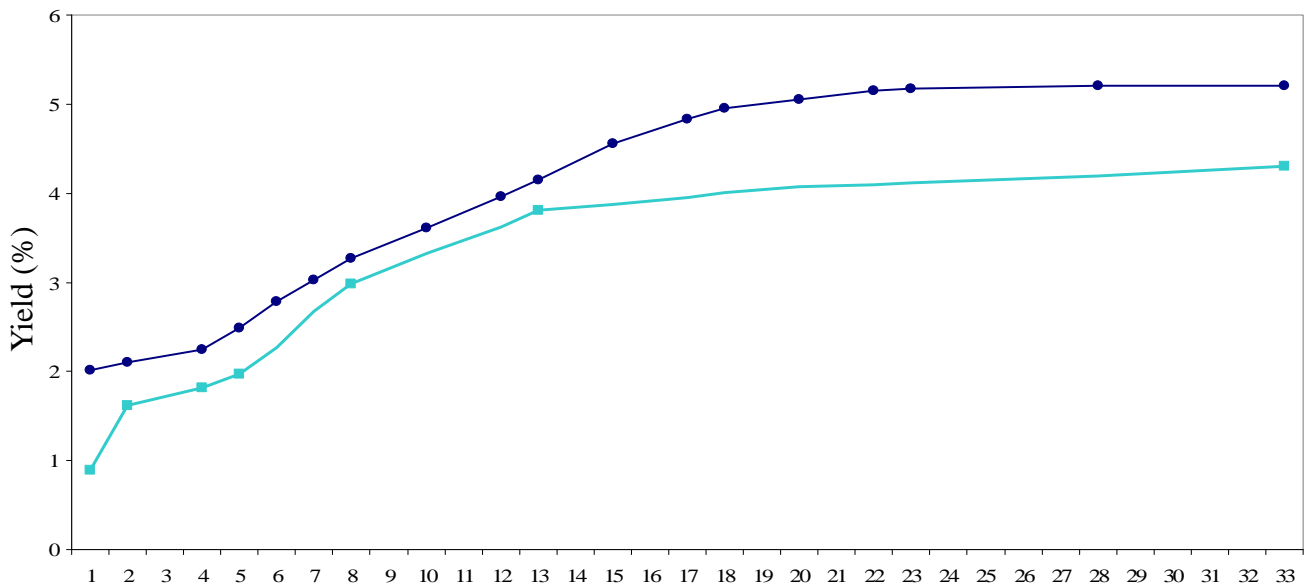
15Y

20Y

Source: Bloomberg

As of August 4, 2008

U.S. Treasury Bonds & Notes Yield Curve



3M
25Y

1Y

3Y
30Y

5Y

7Y

9Y

15Y

20Y

Source: Bloomberg