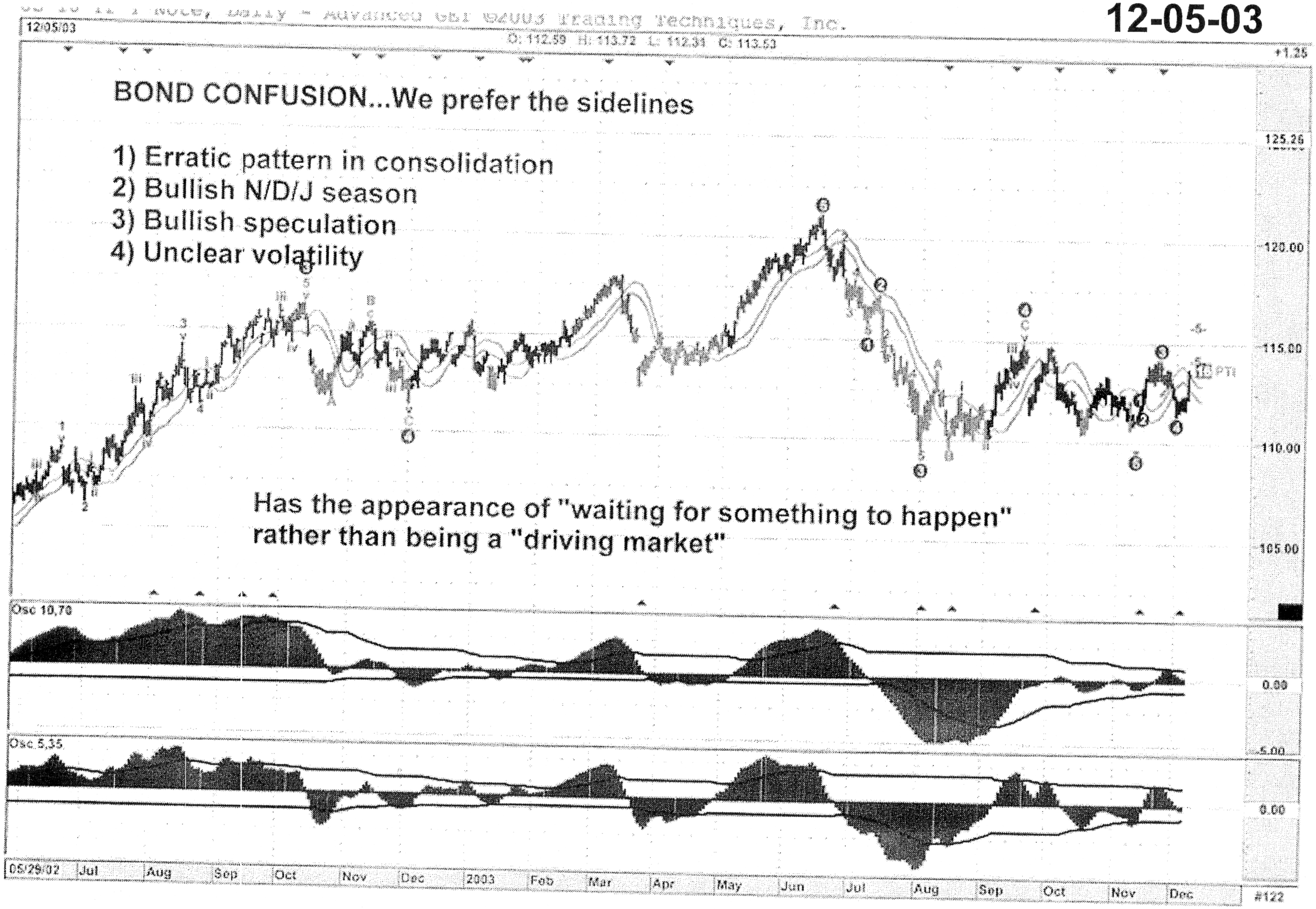
BOND PATTERNS ARE VERY ERRATIC

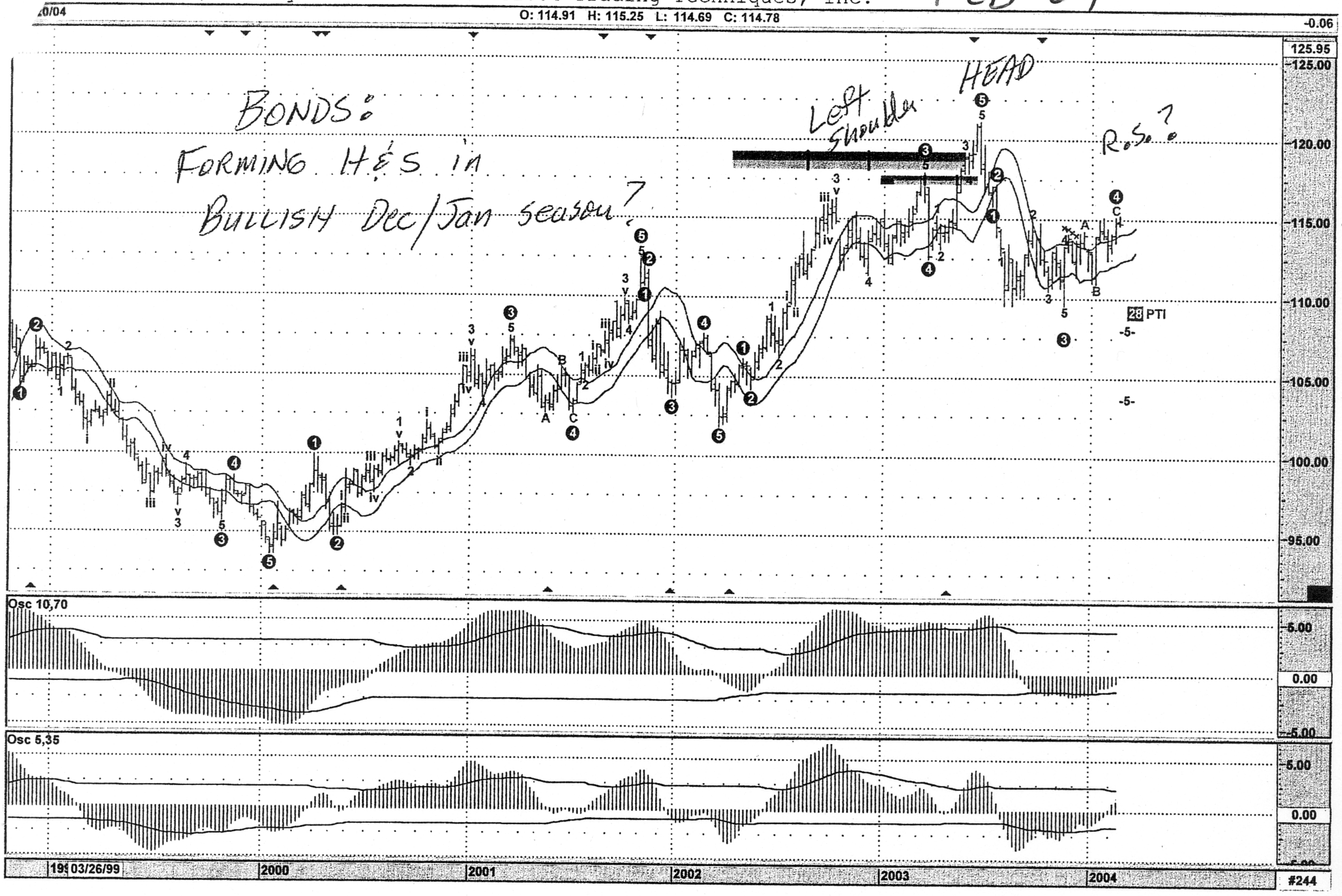
12-05-03



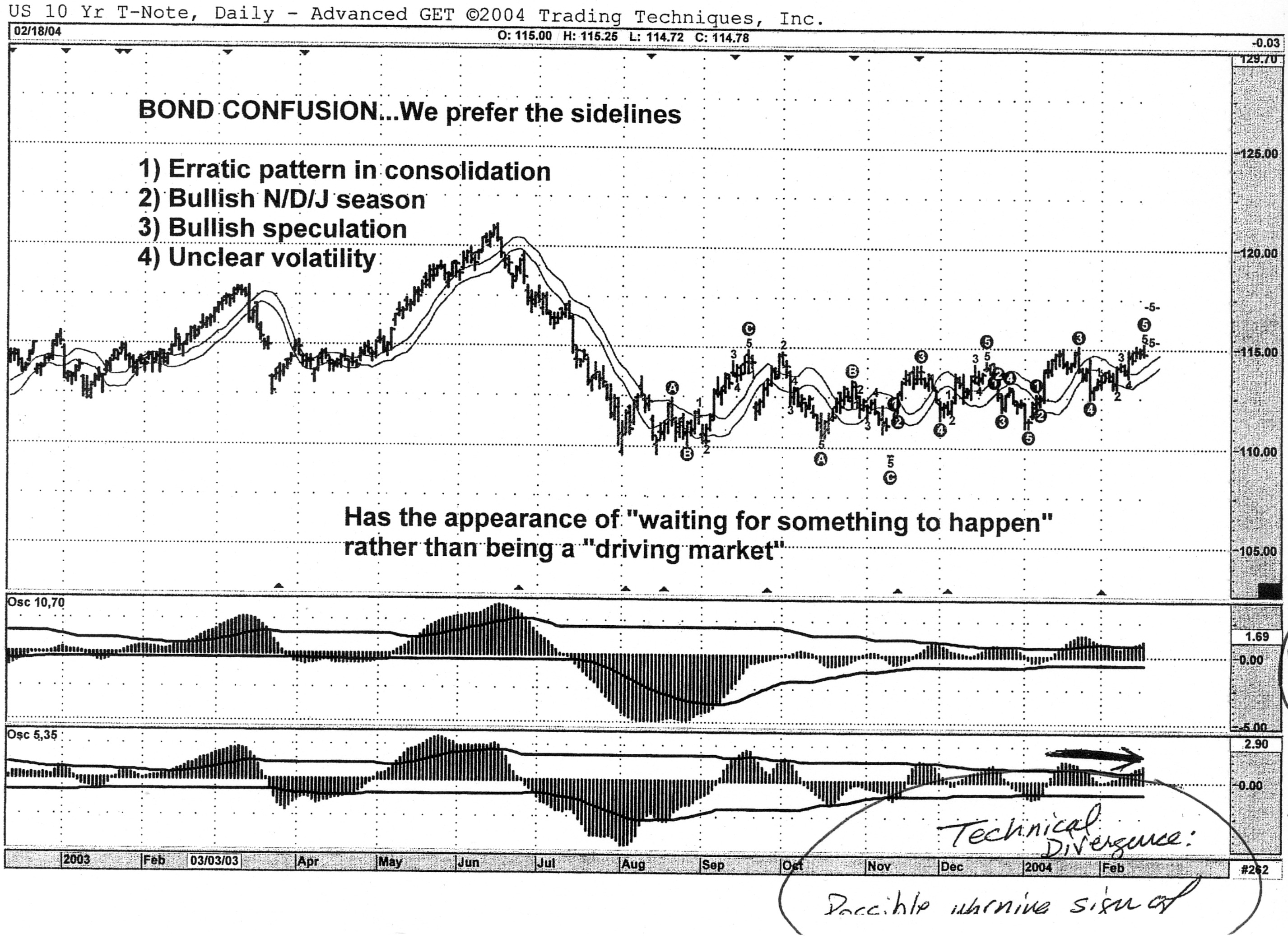
B11

FEB '04

10 Yr T-Note, Weekly - Advanced GET ©2004 Trading Techniques, Inc.



US 10 Yr T-Note, Daily - Advanced GET ©2004 Trading Techniques, Inc.



B12

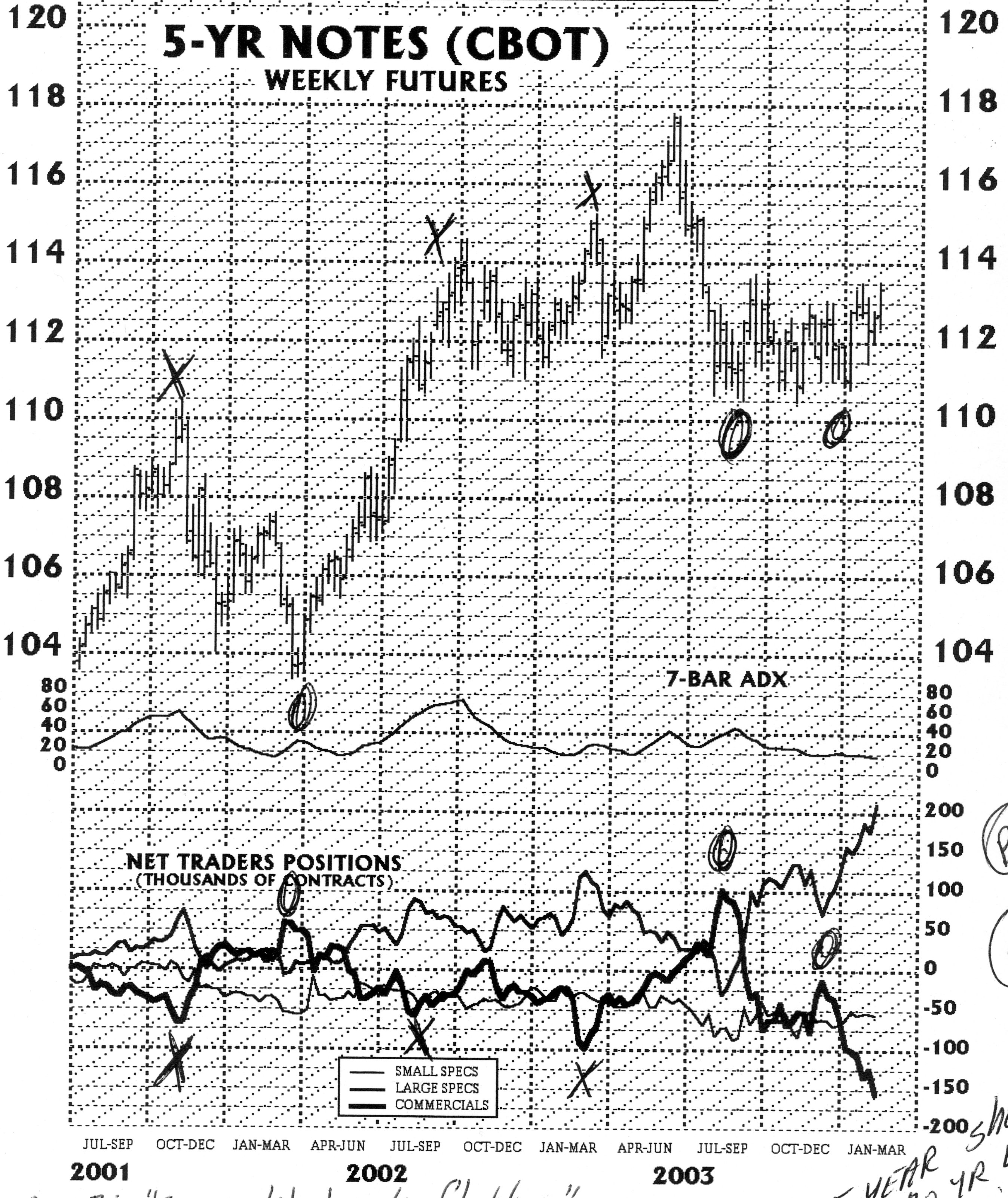
Feb 13, 04--305

	Long	Chg	Short	Chg	Net
LSpecs	344289	28344	132947	-6533	211342
Comm	570472	29970	726001	62263	-155529
SSpecs	68383	6	124196	2590	-55813

Week	Open	High	Low	Close
01/16/04	11224½	11310½	11219½	11229½
01/23/04	11223	11315½	11221	11224½
01/30/04	11224½	11305	$\boxed{11115}$	11210½
02/06/04	11210	11226	11201	11221
02/13/04	11222½	$\boxed{11316½}$	11212	11311

5-YR NOTES (CBOT)

WEEKLY FUTURES

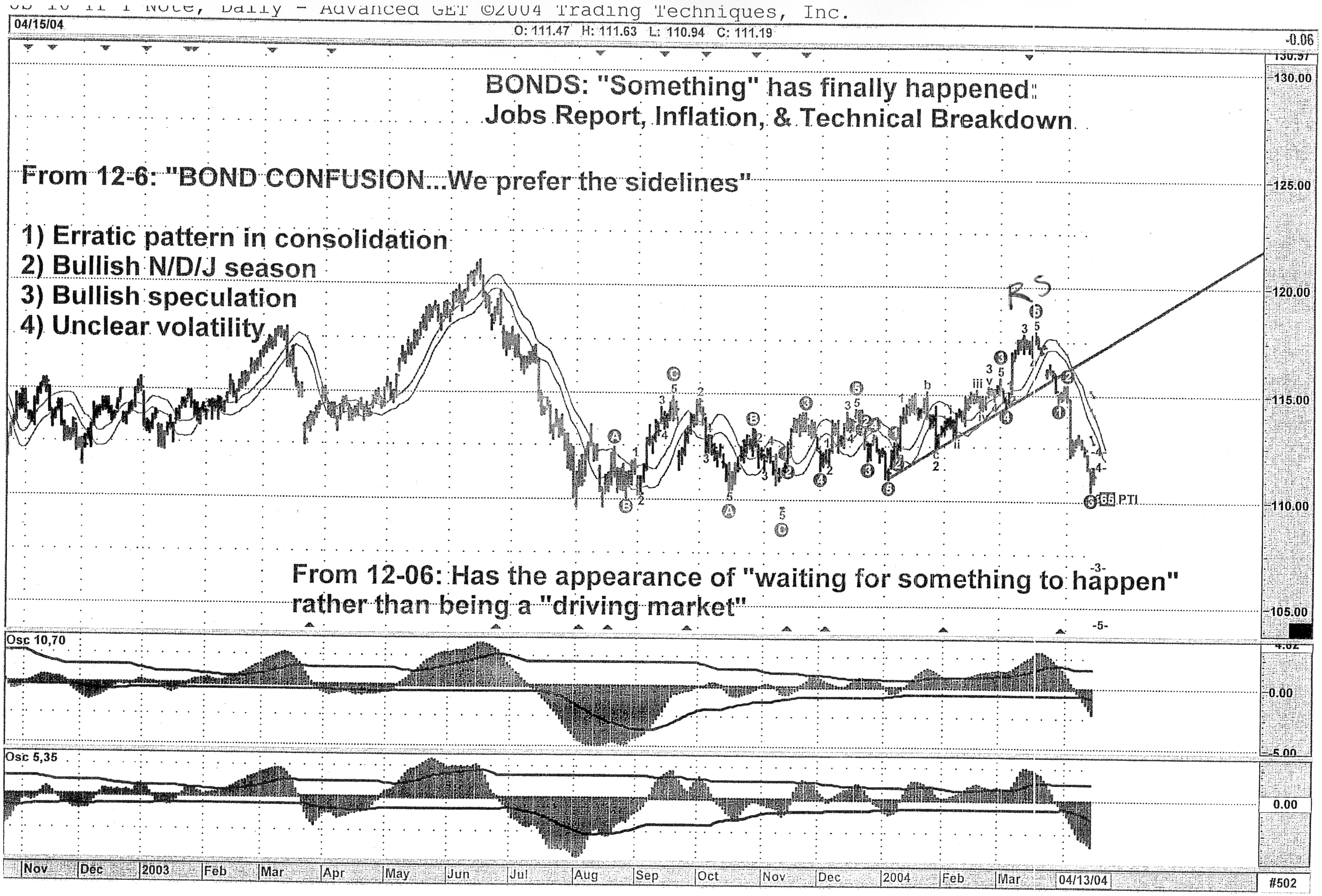


B13

2-03: "curve likely to flatten"

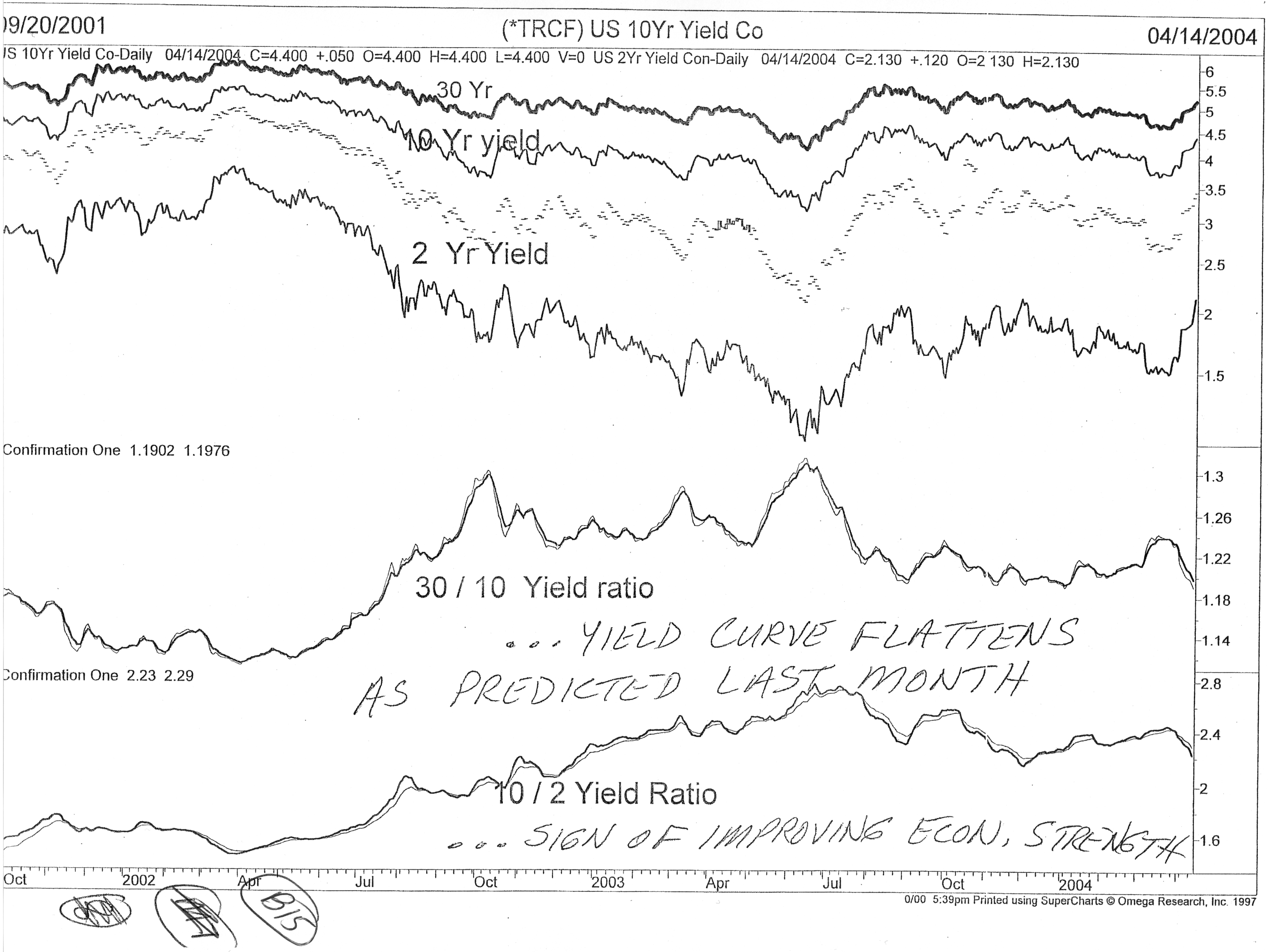
HUGE 5 YEAR SHORTS vs. 10-30 YR LONGS CURVE Likely to flatten

* This chart produced by COMMODITY PRICE CHARTS 1-800-221-4352

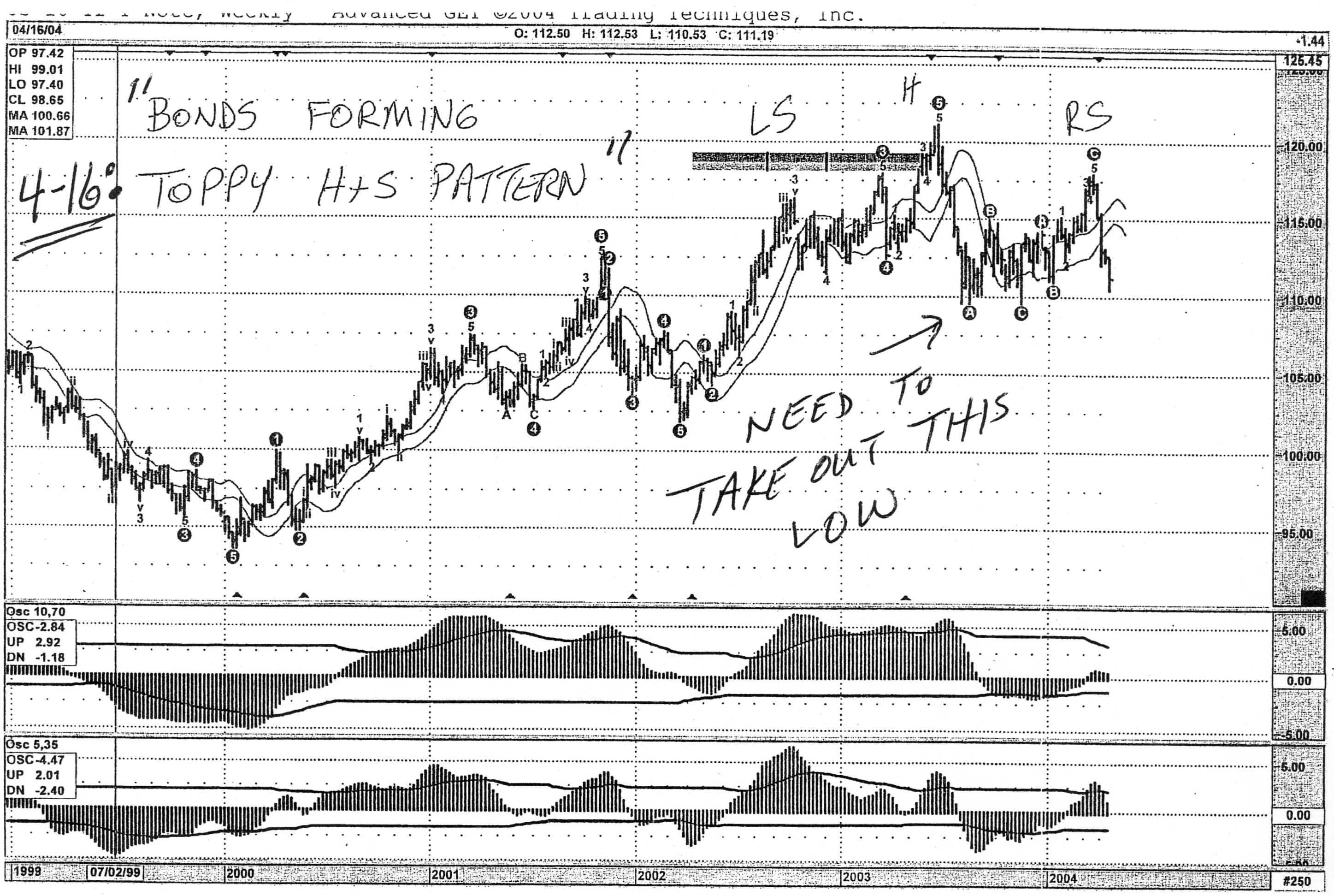

Advanced GET ©2004 Trading Techniques, Inc.
04/15/04
O: 111.47 H: 111.63 L: 110.94 C: 111.19
-0.06
BONDS: "Something" has finally happened:
Jobs Report, Inflation, & Technical Breakdown
From 12-6: "BOND CONFUSION...We prefer the sidelines"
1) Erratic pattern in consolidation
2) Bullish N/D/J season
3) Bullish speculation
4) Unclear volatility
RS
PTI
From 12-06: Has the appearance of "waiting for something to happen"
rather than being a "driving market"
130.00
125.00
120.00
115.00
110.00
105.00
Osc 10,70
0.00
Osc 5,35
0.00
Nov
Dec
2003
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2004
Feb
Mar
04/13/04
#502

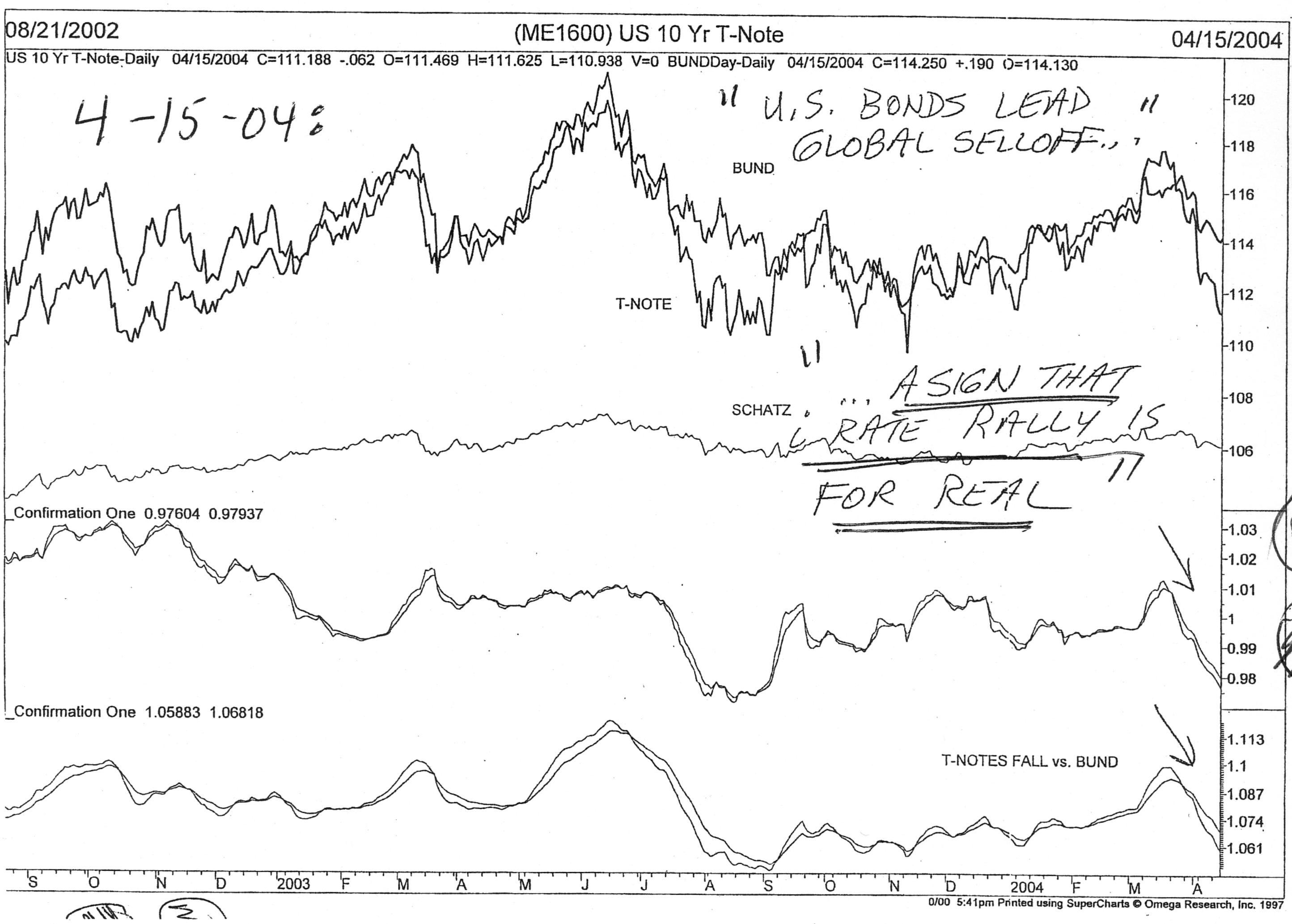
4-15-04

B14

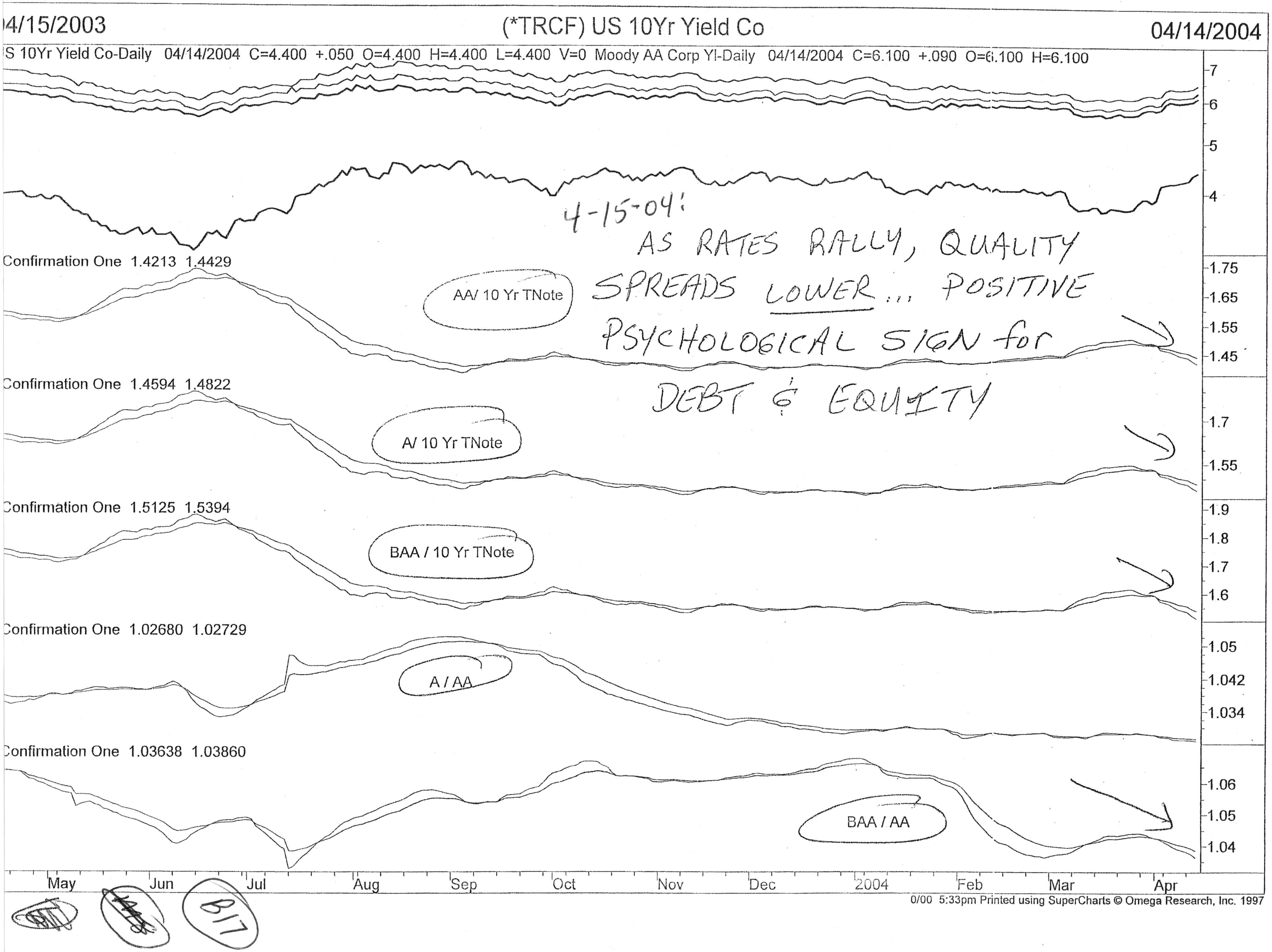


)9/20/2001
(*TRCF) US 10Yr Yield Co
04/14/2004
JS 10Yr Yield Co-Daily 04/14/2004 C=4.400 +.050 O=4.400 H=4.400 L=4.400 V=0 US 2Yr Yield Con-Daily 04/14/2004 C=2.130 +.120 O=2 130 H=2.130
30 Yr
10 Yr yield
2 Yr Yield
Confirmation One 1.1902 1.1976
30 / 10 Yield ratio
...YIELD CURVE FLATTENS
AS PREDICTED LAST MONTH
Confirmation One 2.23 2.29
10 / 2 Yield Ratio
...SIGN OF IMPROVING ECON. STRENGTH
Oct
2002
Apr
Jul
Oct
2003
Apr
Jul
Oct
2004
B/5
0/00 5:39pm Printed using SuperCharts © Omega Research, Inc. 1997

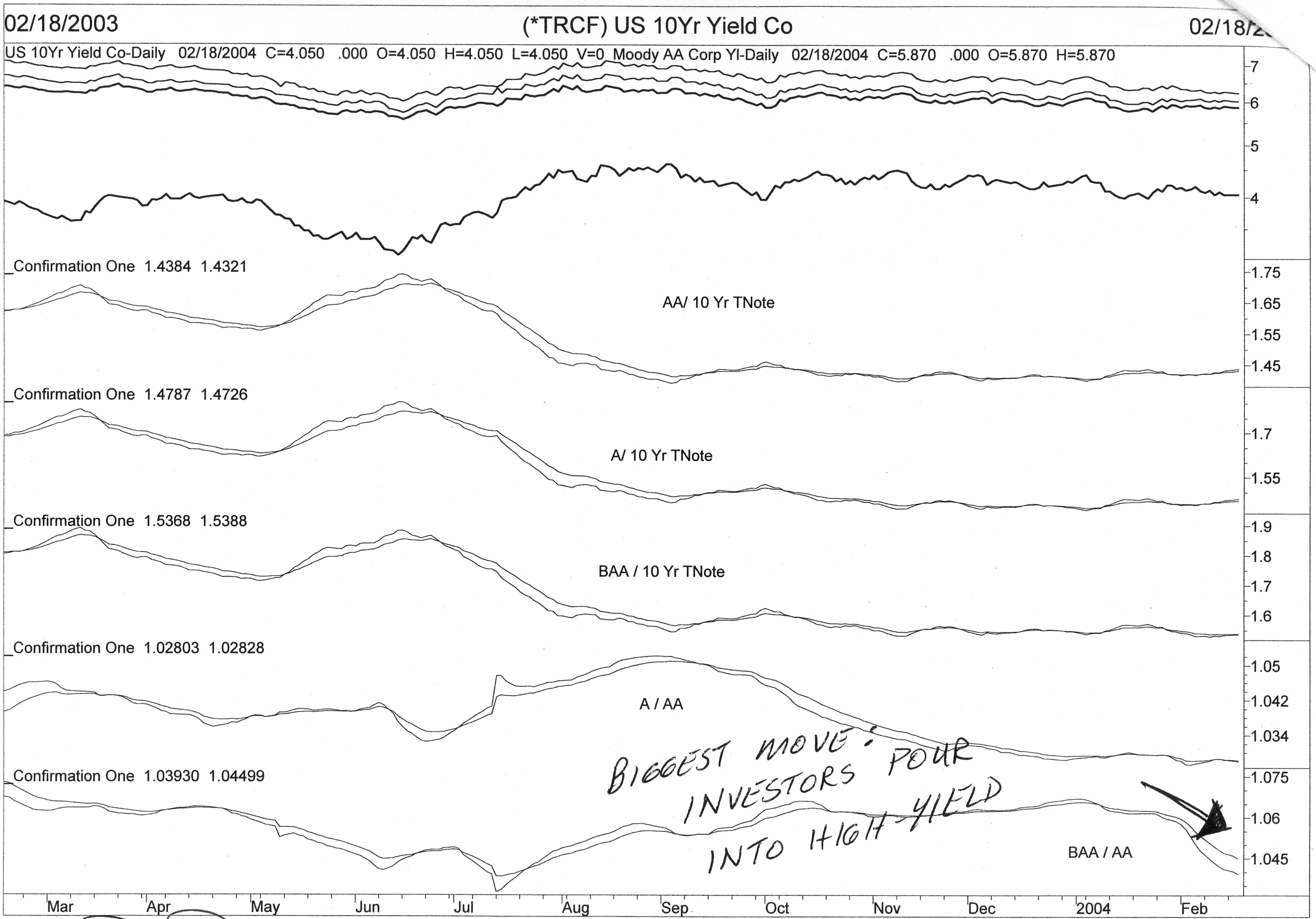

Advanced GET ©2004 Trading Techniques, Inc.
04/16/04
O: 112.50 H: 112.53 L: 110.53 C: 111.19
OP 97.42
HI 99.01
LO 97.40
CL 98.65
MA 100.66
MA 101.87
"BONDS FORMING
4-16: TOPPY H+S PATTERN"
LS
H
RS
NEED TO
TAKE OUT THIS
LOW
Osc 10,70
OSC-2.84
UP 2.92
DN -1.18
Osc 5,35
OSC-4.47
UP 2.01
DN -2.40
1999
07/02/99
2000
2001
2002
2003
2004
#250


08/21/2002
(ME1600) US 10 Yr T-Note
04/15/2004
US 10 Yr T-Note-Daily 04/15/2004 C=111.188 -.062 O=111.469 H=111.625 L=110.938 V=0 BUNDDay-Daily 04/15/2004 C=114.250 +.190 O=114.130
4-15-04:
"U.S. BONDS LEAD GLOBAL SELLOFF.."
BUND
T-NOTE
SCHATZ
"...A SIGN THAT RATE RALLY IS FOR REAL"
Confirmation One 0.97604 0.97937
Confirmation One 1.05883 1.06818
T-NOTES FALL vs. BUND
S O N D 2003 F M A M J J A S O N D 2004 F M A
0/00 5:41pm Printed using SuperCharts © Omega Research, Inc. 1997

B16



04/15/2003
(*TRCF) US 10Yr Yield Co
04/14/2004
US 10Yr Yield Co-Daily 04/14/2004 C=4.400 +.050 O=4.400 H=4.400 L=4.400 V=0 Moody AA Corp Yl-Daily 04/14/2004 C=6.100 +.090 O=6.100 H=6.100
Confirmation One 1.4213 1.4429
AA/ 10 Yr TNote
Confirmation One 1.4594 1.4822
A/ 10 Yr TNote
Confirmation One 1.5125 1.5394
BAA / 10 Yr TNote
Confirmation One 1.02680 1.02729
A / AA
Confirmation One 1.03638 1.03860
BAA / AA
May Jun Jul Aug Sep Oct Nov Dec 2004 Feb Mar Apr
4-15-04:
AS RATES RALLY, QUALITY SPREADS LOWER... POSITIVE PSYCHOLOGICAL SIGN for DEBT & EQUITY
B17
0/00 5:33pm Printed using SuperCharts © Omega Research, Inc. 1997


02/18/2003
(*TRCF) US 10Yr Yield Co
02/18/2
US 10Yr Yield Co-Daily 02/18/2004 C=4.050 .000 O=4.050 H=4.050 L=4.050 V=0 Moody AA Corp Yl-Daily 02/18/2004 C=5.870 .000 O=5.870 H=5.870
_Confirmation One 1.4384 1.4321
AA/ 10 Yr TNote
_Confirmation One 1.4787 1.4726
A/ 10 Yr TNote
_Confirmation One 1.5368 1.5388
BAA / 10 Yr TNote
_Confirmation One 1.02803 1.02828
A / AA
_Confirmation One 1.03930 1.04499
BAA / AA
BIGGEST MOVE: POUR INVESTORS INTO HIGH-YIELD
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2004 Feb
7 6 5 4
1.75 1.65 1.55 1.45
1.7 1.55
1.9 1.8 1.7 1.6
1.05 1.042 1.034
1.075 1.06 1.045

B18

II. BOND STRATEGY

Porto II + III + Charts JAN/04 issue.

- The Fed acknowledged this month that output is expanding briskly, the labor market is improving and deflation risks are receding. The yield curve will shift higher in the coming months as the Fed moves incrementally toward a tightening bias. Maintain portfolio duration at minimum (**Table II-1**).
- Most spread products outperformed again this past month led by high-yield and municipal bonds (**Table II-2**).
- High-yield bonds have reached our target of 410 basis points. Cut exposure to slightly overweight. Nevertheless, high-yield bonds should continue to outperform Treasurys due to the more than 400 basis points in yield pick-up.
- Investment-grade spreads are relatively tight, but unlikely to widen given the current positive fundamentals. An overweight allocation is still warranted; investors should favor higher beta intermediate-quality (A- and BBB-rated) credit tiers.
- MBS valuation has deteriorated but remains relatively attractive relative to other high-quality spread products.
- Breakeven inflation rates are near the top of their range. We maintain our overweight allocation to TIPS since they are likely to outperform conventional Treasury securities as yields rise.
- Municipal bonds generated strong excess returns again this month. The municipal/Treasury yield ratio has surpassed our target of 87% and we recommend reducing exposure to neutral.

TABLE II-1
Recommended Portfolio Specification

Portfolio Duration: **Maximum Underweight (1 out of 5)**

Portfolio Allocation:

Sector	Investment Stance*	Remarks
Treasurys	2	Maintain barbell portfolio structure; overweight TIPS.
Spread Product	4	
Corporates	4	Favor high-beta, BBB issues.
High-Yield	~~5~~ 4	Cut exposure to slightly overweight; favor lower credit tiers.
Agencies	2	Favor subordinates and callables.
Mortgages	4	Favor high-coupon and seasoned securities.
Municipals	~~4~~ 3	Reduce exposure to neutral.
Cash	3	

* ***Recommended portfolio weighting relative to benchmark.***

B19

Legend:
1 – Maximum Underweight
2 – Underweight
3 – At Benchmark
4 – Overweight
5 – Maximum Overweight

B.C.A. begins to lower weightings in corporate bonds

(M16)

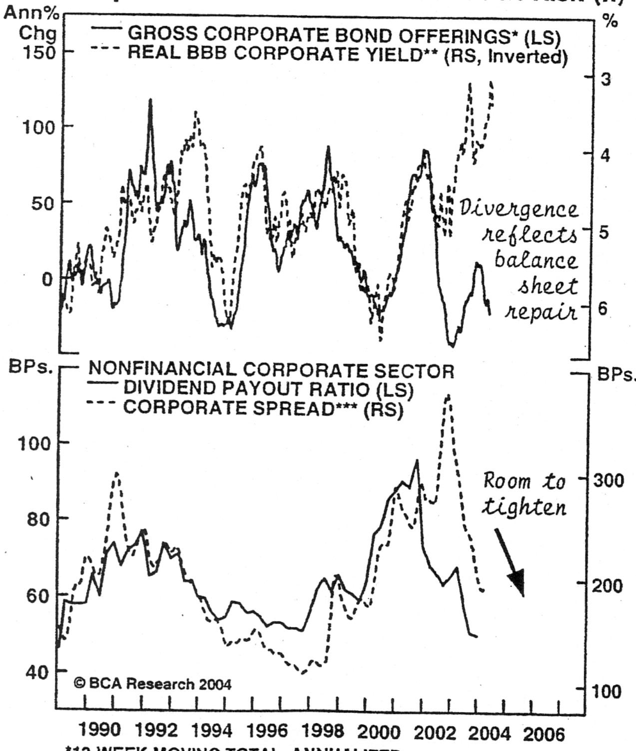
U.S. Corporate Bonds: How Much Further to Run?

Corporate credit quality continues to improve. Moody's Investors Service reported a big drop in the trailing default rate for corporate bonds for the 12-months ended in March. The recovery rates on defaulted debt have also bounced back, pushing the net loss on defaulted debt down to 2.2%, its lowest level since 1998.[1] The improving trend in ratings migration shows that the rating agencies are acknowledging improved credit quality, albeit with a lag. Rating downgrades still outnumber upgrades, but downgrades accounted for 59% of total ratings changes in the first quarter, representing a 5½-year low.

Spreads will come under upward pressure as the Fed's message gradually changes from dovish to neutral, and then to hawkish. Historically, the onset of Fed rate hikes has often been positive for corporate spreads because rising interest rates usually occur against a backdrop of strong economic growth, robust corporate profits and a healthy stock market. Nonetheless, spreads often began those tightening cycles at wide levels, which is unlike the situation today. Thus, the risk facing corporate bond spreads will climb as the first Fed rate hike approaches. However, we may not jump to take profits if measures of corporate quality are still improving.

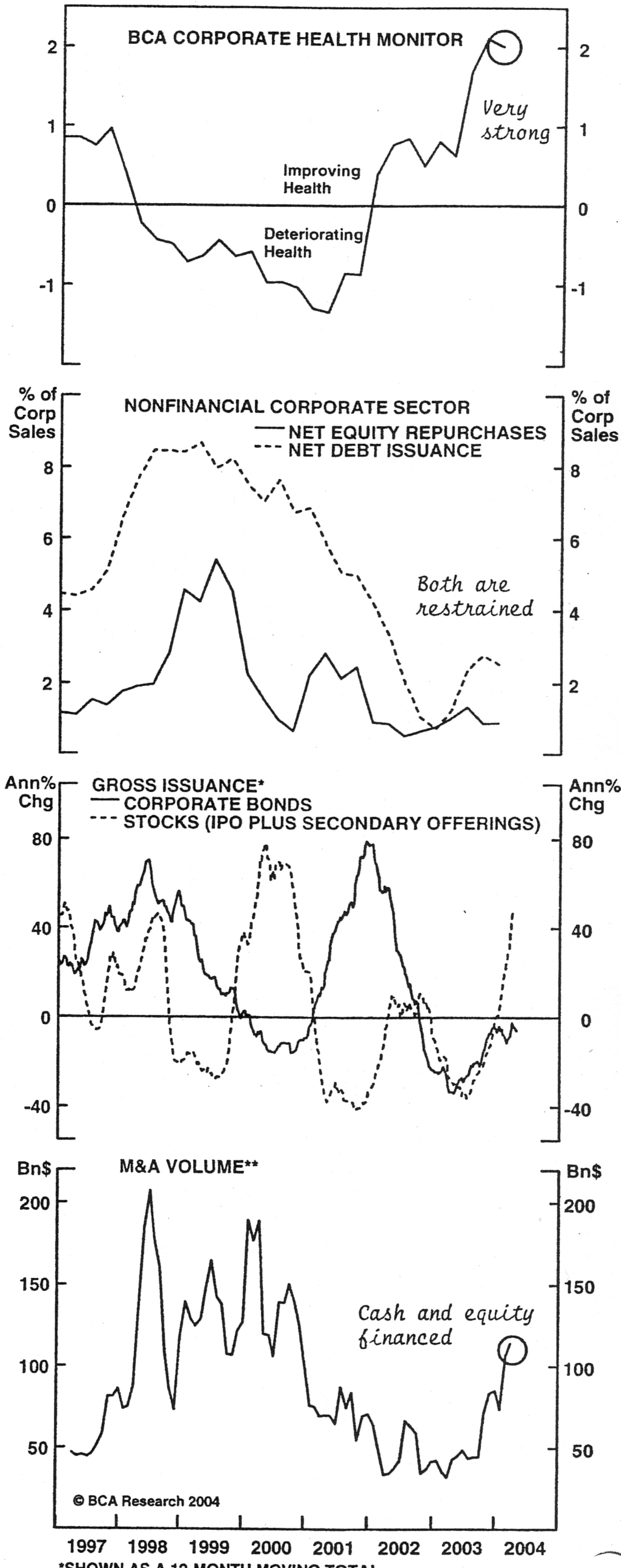
Most of the corporate bond outperformance is behind us for this cycle, but we see no signs that spreads are in danger of widening in the near term. Nonfinancial cor-

CHART I-11
Corporate Debtholders Not Yet at Risk (II)



*13-WEEK MOVING TOTAL, ANNUALIZED
**SOURCE: MERRILL LYNCH; DEFLATED BY CORE CPI
***WEIGHTED AVERAGE INVESTMENT-GRADE AND HIGH-YIELD SPREAD OVER TREASURY INDEX, SOURCE: MERRILL LYNCH

CHART I-10
Corporate Debtholders Not Yet at Risk (I)



*SHOWN AS A 12-MONTH MOVING TOTAL
**SHOWN AS A 3-MONTH MOVING AVERAGE

Total Return Benchmarks

As of 04/19/2004	Total Return			Projected Return 6-Month Horizon			
	Past Month	Past Year	Year-to-Date	Yields Up 50 BPs	Yields Down 50 BPs	Duration[1]	Risk[2]
Treasury Bills	0.08%	1.05%	0.28%	0.5%	0.5%	0.2	0.1%
Treasury Master	-2.71%	2.07%	0.38%	-0.9%	4.4%	5.5	5.6%
Treasury Notes	-1.64%	2.12%	0.39%	-0.2%	3.0%	3.3	3.4%
Treasury Bonds	-5.38%	1.79%	0.23%	-2.6%	8.1%	11.0	10.7%
2-Year Treasury	-0.74%	2.05%	0.33%	0.1%	2.0%	1.9	1.9%
5-Year Treasury	-2.65%	2.66%	0.43%	-0.5%	4.0%	4.6	5.6%
10-Year Treasury	-4.25%	1.57%	0.46%	-1.7%	6.3%	8.0	8.8%
30-Year Treasury	-6.32%	0.59%	-0.29%	-4.1%	10.1%	14.5	12.9%
Agency Master	-1.94%	2.26%	0.57%	-0.3%	3.7%	4.0	4.1%
Corporate Master	-2.57%	6.05%	0.73%	-0.5%	5.2%	5.8	5.6%
AAA-Rated Corporates	-2.51%	3.87%	0.76%	-0.7%	4.9%	5.7	5.6%
AA-Rated Corporates	-2.19%	3.43%	0.68%	-0.4%	4.2%	4.6	4.9%
A-Rated Corporates	-2.69%	4.42%	0.68%	-0.6%	5.0%	5.7	5.6%
BBB-Rated Corporates	-2.54%	8.26%	0.78%	-0.4%	5.6%	6.2	5.8%
High-Yield[3] *	-0.05%	17.93%	1.91%	1.6%	6.1%	4.6	3.2%
BB-Rated Corporates	-0.98%	14.84%	2.06%	0.5%	5.5%	5.0	2.9%
B-Rated Corporates	0.25%	16.59%	1.80%	1.5%	6.0%	4.5	3.6%
TIPS[4]	-2.67%	8.99%	2.19%	-2.2%	6.2%	8.9	6.9%
Mortgages[5]	-1.07%	2.99%	0.83%	-0.4%	4.5%	3.5	3.2%
Municipals[6]	-3.06%	5.43%	0.14%			7.1	4.7%
S&P 500	1.84%	29.70%	4.06%				9.4%

* Hi yield has been best performer...

TABLE I-1
Bond Performance During Major Bear Markets (Total Return)*

	Jan 1987 to Oct 1987	Feb 1988 to Mar 1989	Oct 1993 to Dec 1994	Oct 1998 to Feb 2000	Average
Change in Treasury Note Yield**	220 bps	252 bps	352 bps	252 bps	272 bps
Mortgages Master	-2.5%	10.5%	-0.9%	1.4%	2.1%
15-Year***			-3.0%	0.6%	
30-Year***	-6.1%	2.3%	-5.2%	-1.6%	
Treasury Notes**	-0.7%	3.1%	-2.6%	-0.4%	-0.1%
Agencies**	-0.8%	3.6%	-1.8%	0.2%	0.3%
Bullets				-2.5%	
Callables				1.3%	
Corporates**					
AAA-AA rated	-1.5%	5.1%	-3.5%	-1.2%	-0.3%
BBB-A rated	-0.8%	5.3%	-2.9%	-0.4%	0.3%
High-Yield	-1.7%	11.9%	0.4%	4.3%	3.7% *

* Source: Merrill Lynch, not duration matched
** 1-10 years to maturity
*** Ginnie Mae, current coupon

* Best performer in Bond bear markets, a...

B21