CHARLES FISH INVESTMENTS, INC

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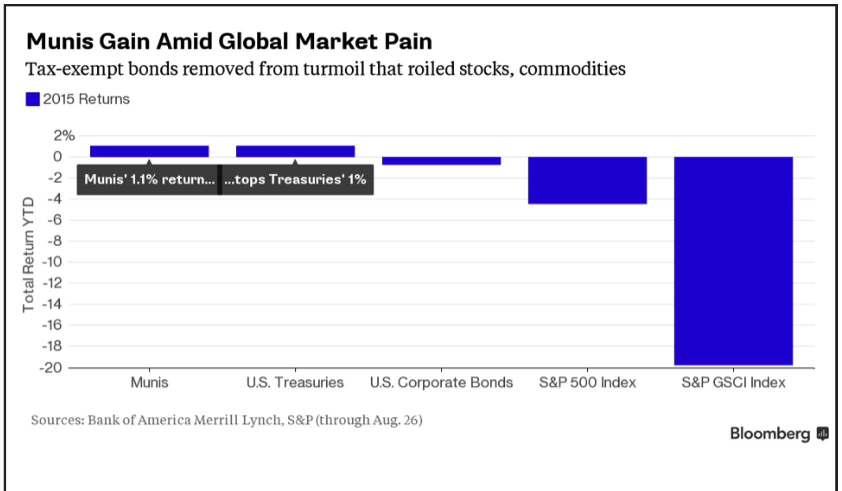
What a Week!

by CFI Research and Trading

Without a doubt, the global equity markets' action in the last days of August gave new meaning to "Mr. Toad's Wild Ride"! According to CNBC, between August 24th and August 27th, "the Dow (has) traveled more than 10,000 points, both up and down, making last week one of those most volatile weeks on record. By contrast the U.S. Treasury 10-year bond, while experiencing its own modest share of gyrations, registered a collective 19 basis points move over the same period and ended the overall month down 10 basis points at 2.15%.



The debate is now on as to what the Fed will do in light of this heightened volatility? According to St. Louis Federal Reserve President James Bullard, there has been no alteration to the Fed's forecast for the economy and the likelihood of the Fed changing its strategy simply due to market swings is remote. However, the timing of any Fed move becomes less certain. Bullard noted that "the committee does not like to move when there's volatility." Several Fed members believe that the U.S. economy is now on more solid ground and able to sustain a modest rate increase. Countering this stance is the fact that the "Fed is having a devil of a time getting inflation up to 2%", according to Princeton University Economics Professor and former Fed Reserve Vice Chairman Alan Blinder. Only time will tell just when the committee will begin its "normalization process". As long as world equity markets continue to be whipsawed by the sudden shifts in investor sentiment the more likely the Fed will postpone its much anticipated interest rate hike although most pundits expect some action, albeit minimal, before year-end. *(continued page 2)*

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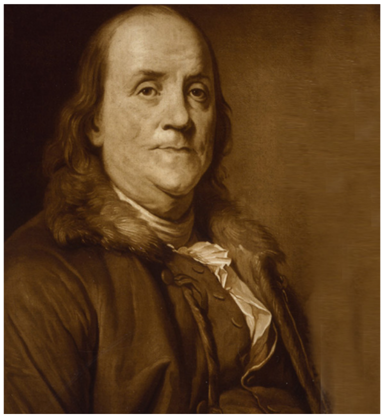
Our Mission

CFI is dedicated to the task of securing for each individual account the best possible after-tax performance net of fees. We accomplish this by actively managing tailored portfolios in strict adherence to the strategic objectives of each client. It is our responsibility to employ the most suitable fixed income assets and strategies in a manner most effective for every account. It is our duty to devote the resources, intensity and vigilance necessary to insure all clients consistent superior results.



"Diligence is the mother of good luck."
Benjamin Franklin

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The value of diversification should never be underestimated. The benefit of spreading one's risk exposure has been more than proven by the municipal market's recent performance. According to Bank of America Merrill Lynch, the year to date return on long-dated municipals is 1.1% versus corporate bonds which posted a negative 0.5% return. Ten-year muni yields are down approximately 10 basis points over the past three weeks and remain "cheap" in comparison to the taxable sector. At a tax-free yield of 2.22%, AA-rated municipals are currently at 104% of USTNs, well above the historical average of 97%. Not only have municipals been a safe haven from the turmoil of recent days, the sector's 2015 volatility YTD is a very modest 2%, significantly less than equities at 25% and less than half of the 5% reported for corporates and USTNs. Although not immune from its own pockets of distressed situations (witness Puerto Rico, Detroit, Stockton, etc.), strong fundamentals have helped make the municipal market more or less insulated from global slowdown concerns and the recent turmoil. Perhaps this "stodgy, boring, and lackluster" asset class isn't so bad after all.

FISH SCALES

NATIONAL AA RATED*		AUG	AA G.O.	A-rated COPs	Pre-Refunded	Non - Rated*	USTN	AA Txbl	Mun
0.27		2016	0.26	0.57	0.25	0.98	0.38		+38
0.65		2017	0.62	0.99	0.60	1.52	0.74		+53
0.95		2018	0.91	1.31	0.88	2.00	1.05		+68
1.23		2019	1.13	1.58	1.07	2.33	1.38		+82
1.46		**2020**	**1.39**	**1.86**	**1.30**	**2.63**	**1.55**		**+89**
1.76		2021	1.69	2.18		2.91	1.83		+93
1.98		2022	1.95	2.47		3.17	1.95		+107
2.13		2023	2.12	2.62		3.30	2.07		+116
2.26		2024	2.28	2.78		3.43	2.18		+128
2.37		**2025**	**2.43**	**2.93**		**3.55**	**2.22**		**+141**
2.50		2026	2.55	3.08		3.70			
2.60		2027	2.66	3.21		3.80			
2.70		2028	2.80	3.32		3.89			
2.79		2029	2.95	3.45		3.97			
2.87		**2030**	**3.04**	**3.55**		**4.06**	**2.50**		**+170**
3.12		**2035**	**3.28**	**3.79**		**4.29**	**2.67**		**+189**
3.28		**2040**	**3.47**	**3.92**		**4.38**	**2.90**		**+189**
3.34		**2045**	**3.53**	**3.96**		**4.45**	**2.96**		**+187**

* National Scales from MMD
**Proxy for Non-Rated Paper

August 31, 2015
AS OF DATE

Credit Corner

By Betsy Shelton, Director of Research / Sr. Portfolio Manager.

What Does A Good Credit Analyst And Sherlock Holmes Have In Common? They Often See The World Differently Than Others.

I am often asked what exactly I do as a municipal credit analyst. After all in this age of electronic data isn't everything available to anyone and everyone? Unfortunately much of what is "out there" is frivolous, meaningless, dated, or at best requires extensive time, energy and tools to mine for the pertinent data. Staying on top of the over 1,500 securities under CFI's management requires diligence, commitment, extensive networks and an inquiring mind, in addition to multiple computer models and surveillance systems. Every day I read a multitude of newspaper articles, credit reports, and various headline alerts but not in the usual relaxed, lackadaisical way that one does with a cup of coffee and the Sunday paper. Rather I read with the intensity of one of my favorite fictional characters and analytical mentor, Sherlock Holmes. Much of what Sherlock says can be related to the municipal market and proper credit analysis. So please indulge me as I quote him liberally in my forthcoming comments.

Conducting superior credit research requires more than what is considered to be the standard equipment found an analyst's toolbox (i.e. ratings reports, official documents, continuing disclosures). It is essentially a way of thinking and looking at things above and beyond the obvious. I think Holmes summed things up best when he said, *"There is nothing more deceptive than an obvious fact."*

The best way to summarize the various capabilities required of a good municipal researcher is the ability to be a "bond sleuth". By definition, a sleuth is a "detective or one who searches out and investigates obscure information, facts, or phenemonas (emphasis added). Note the operative word here is "obscure". A good credit analyst seeks to emulate Sherlock Holmes, who once said *"It is my business to know what other people don't know".* Sleuthing involves not just seeing and recording the information found. It requires observing the ripple effects of the situation. It means being a facts-sifter and insight-gatherer, always asking questions about what even the most obscure fact might mean even if the actual event or situation seems to be presently benign. "Never trust general impressions…, but concentrate yourself upon details." Like a good sleuth, the good analyst is "glad of all the details whether they seem (to you) to be relevant or not".

A successful sleuth could be thought of as an intelligence analyst on steroids. A colleague, Jeff Curie, CEO of Bitvore Corporation, recently wrote an excellent two part article on the various types of information intelligence that bombard us daily to the point of overload. Jeff reduces these types of intelligence to three basic terms: intelligence gathering, obligor intelligence, and material intelligence with each term being a stepping-stone to the next. Gathering alone without assessing is meaningless; collecting issuer information without knowing the relevance of such is also a waste; and without insights into what is material or not will affect how one effectively monitors the impact of changes therein. Many a developing credit challenge has gone undetected because *"the world is full of obvious things that nobody by any chance ever observes."* Sherlock would admonish us as he did Watson, saying, *"On the contrary, Watson, you can see everything. You fail, however, to reason from what you see."*

At CFI we seek to obtain not only the facts but also to have a "real-time situation awareness" of matters that will give us *"specificity, relevance and insight"* into what's going on both directly with the obligor itself and the surrounding community. Holmes often described a good analytical methodology when he repeatedly told Watson, *"You know my method. It is founded upon the observation of trifles"* in which *"the little things are infinitely the most important"*. Often a credit situation may appear to be straightforward and yet is really *"one of those simple cases which are extremely difficult."* At the risk of sounding trite, there truly is import in the admonition that "the devil is in the details".

Ok, enough of my pontifications about Sherlock Holmes. How does his wisdom and insights translate into real relevance for bond investors? Let me give you a few examples. Often one will find in the description of an issue the word "Authority" such as the California Educational Authority or the New Jersey Economic Development Authority. It is times like this these when my "credit antenna" immediately goes up. Does this mean the state is responsible, either directly or indirectly, for payment? After all, the state's name is in bold, capitalized print on the

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official statement. More often than not the answer is no, the state is NOT obligated. So who then is? One needs to "look under the hood" so to speak to find out who is the real obligor. The word "Authority" simply means a conduit agency has been established through which the real obligor is allowed to issue tax-exempt debt. Each authority has its own rules and regulations for issuers. They also vary greatly in their oversight and monitoring responsibilities. For example, the California Educational Authority allows private colleges and universities within the State to issue tax-exempt debt under their moniker but does not usually monitor the credit quality of that debt after issuance nor does it enforce the timeliness and accuracy of continuing disclosure requirements.

News of a corporate relocation often presents a "sleuthing opportunity". The significance of things to come is more than just the initial job loss or gain. Dramatic economic changes, whether for better or worse, often bring a veiled "waterfall effect" to the local community and surrounding areas, maybe even as high as the state level. One has to look at the impact on property, sales and use taxes, infrastructure needs and maintenance, and even other overlapping issuers such as school districts, utilities, and other government agencies. Often one must assume the role of forensic accountant in order to see how even the minutest of changes, either collectively or over time, can possibly make a major impact on a municipality's finances. The recent decline in oil prices and the demise it has brought to the boomtowns of the Dakotas is a perfect example. The effects vary from municipality to municipality but clearly most entities are experiencing declining revenue that requires an analyst to "balance the probabilities and choose the most likely" outcome.

The old adage that "nothing happens in a vacuum" is very applicable to municipal market research. State and local governments are like big ships; it usually takes time for events to impact their bottom line (monster natural disasters like Hurricane Katrina aside). And news can often go unnoticed without a diligent eye. Such is the case with the announcement on August 18th that Griggs County North Dakota was suing its own public building authority. While the County had legally issued lease-backed debt for a new courthouse the majority of voters, unbeknownst to most investors, had already rejected the project not once, not twice, but three times before the prior board of commissioners chose an alternative route to issue bonds that did not require voter approval. The possibility of default looms on the horizon as the County seeks to terminate its lease agreement for lack of "quiet enjoyment".

The joy of living in our current age of information is that one can usually easily find out the basic facts. It takes proper training, time, dedication and sufficient resources to truly uncover those "obscure information, facts, or phenomenas" essential to making solid credit decisions. The value of checking and double checking the fine print, seeking out local new sources, and even "going out to kick the dirt" cannot be overlooked. Unfortunately many investment managers rely on the rating agencies as their credit periscopes, do cursory credit work, or often default to restricting their holdings to only very large, high-grade issuers rather than do the heavy lifting required of quality credit research. Solid research requires one to do some "heavy lifting." It is much more than relying on the rating agencies alone, doing cursory credit investigation or, worste of all, restricting one's investments to only very large, high-grade issues so as not to have to monitor the credit.

As for myself, I must have been born a sleuth at heart, having devoured many Sherlock Holmes stories late into the night. Perhaps my enjoyment of being a credit analyst and a portfolio manager comes from taking to heart my favorite quotes. *"How dangerous it always is to reason from insufficient data"*, followed by *"I see no more than you but I have trained myself to notice what I see",* and lastly, but not less important, *"You know my methods. Apply them."*

All italicized quotes come from the Sherlock Holmes Collection.

For more information visit

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