



Municipal Bond Advantage Strategy

**“Peace of mind and predictability come at a cost,
risk and volatility are totally free.”**

Watkinson Capital Advisors LLC. (610) 989-9090



Overview

- Why municipal or tax-exempt bonds? Quite simply, this investment is your “staying rich money”, not “getting rich money.” In addition, which direction do you think Federal Tax rates are heading with the current administration’s massive spending, the action of the Fed and the enormous budget deficit?
- Most people buy municipal bonds through a bank, their financial advisor, a Vanguard type asset manager or they buy a fixed income mutual fund. The yield they receive is priced off the daily scale sheet. We call these bonds plain or vanilla municipal bonds.
- If I can produce a higher yield for you [that’s an increase in tax free interest of 25% to 30% over what you are currently earning], without downgrading in quality or extending to a longer maturity, then your investment income would substantially benefit from this strategy.
- We have this ability because large funds like Nuveen, Blackrock, and Vanguard are multibillion dollars in size and have no capacity, interest, or knowledge in our “story or goodie bonds”. In addition, most financial advisors, dealers and banks are not aware of these bonds, or lack the expertise to fully comprehend them.
- More than ever, investors are seeking quality, income, liquidity, safety of principal and transparency in an investment one can understand. The following presentation will outline our strategy.



Value Proposition and Target Markets

Current crisis in credit markets has created a dislocation in the value of many investments which has not occurred to this degree in our lifetime and to a lesser degree not since the 1980-82 or 1990-92 recessions

- Opportunity to achieve significant annual returns over next several years. With an emphasis on absolute return, we utilize specific municipal bonds as our investment vehicle, a bond which includes a story and purpose that is often overlooked or unknown
- Significant credit research, portfolio management and trading experience is utilized to produce a tax advantaged investment with superior results
- Value-driven fundamental credit techniques
- Each client's portfolio is a separately managed account, the design based on the client's goals and intentions

Target Market

- High net worth individuals
- Moderate size institutional accounts
- Independent financial advisors

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Benefits Of Investing in Municipal Bonds

- Various types of clients are allocating assets away from traditional fixed-income vehicles and equities, and moving them to less volatile and high quality credit strategies, seeking tax free income
- Our investment strategy provides high net worth individuals and institutions with an experienced resource to manage an important part of their investment portfolio



Current Municipal Bond Market Opportunity

- Opportunity to build a successful fixed-income business, utilizing municipal bonds, which will be a source of investment pride and profitability for our clients
- A niche business in the municipal bond arena to locate, research and invest in misunderstood, mispriced and undervalued high quality, tax exempt bonds
- Client service-focused team and firm with an emphasis on transparency to satisfy the client's desire for liquidity, income, safety, quality and diversification
- Locating issues in the municipal market, often based on a smaller tradable amount of bonds, that large and small institutions, dealers, and clients overlook

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Example of a Story Bond

- Description: Louisiana Housing Finance Agency, 4.75% maturity 12-1-2031, Multifamily, Section 8, FHA and HUD
- Information: Section 8, Multi-family, FHA is a federal program that insures mortgages to financially assist people with housing.....which is done through the HUD program
- Question: If the bonds are guaranteed by the federal government, FHA, why are they A2 rated and not AAA or AA? Why are the bonds trading so cheap, being mispriced and misunderstood?
- Story: We contacted Moody's and were informed that these bonds couldn't be rated AAA because 1% of the mortgages are not federally insured. Hence, 99% of the mortgages are government guaranteed, but the bonds are trading at an uninsured low level
- Report: Our clients bought bonds @89 (\$890), with a 6.25% yield to the average life of 2019. The Sinking Fund will pay \$100 (\$1000) for those bonds twice a year on a random basis. That produces a 7.08% yield to the first sinking fund call. Our clients receive tax free income of 6.25% for a government insured bond that matures in less than 10 years. This is an additional yield of 3.25% or 325 basis points over what the AAA scale was yielding, or where other bonds were trading



Experienced Client Centric Team

- An experienced team of investment professionals who can bring our clients the experience and expertise to take advantage of current bond market opportunities
- Exhibit our ability to produce a significantly higher net tax-exempt yield to the client without downgrading in quality or extending beyond acceptable maturities
- Our strategy is a process that integrates research and trading with portfolio management
- Active management of key investment decisions with a constant effort to upgrade in quality and increase the yield through bond swaps
- Outstanding client service and constant monitoring for additional municipal bond selections, replacing called bonds, upgrading in quality while generating more tax- exempt yield when appropriate

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Composition of Portfolio

- Advantage Strategy Current Tax-exempt Yield = 4.49%
- Tax-Exempt Yield on 'Plain Municipals' = 2.20%
- Advantage Strategy Additional Yield Pick-up = 2.29%
- Tax Equivalent Yield = 6.82 %
- Average Maturity = 4.28 years (2013)
- Average Quality = AA- / A+



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Summary

- **As an investor your next step would be to commit to this municipal strategy to produce less volatility, a predictable tax-exempt income stream to achieve your investment goals**
- **This environment provides the opportunity for investors to reap outsized gains as credit markets normalize. Each client's portfolio is a separately managed account, the design based on the client's goals and intentions**
- **Significant opportunity exists due to the current credit market environment. One can achieve superior fixed and tax advantaged returns today at relatively low risk levels.**
- **There is very little competition for our municipal strategy, mainly because of the necessary research, the fact that very few investors and professionals know that these special situations even exist, and the required relationships on how to uncover the hidden value of the bonds we buy**
- **Exhibit our ability to produce a significantly higher net tax-exempt yield to the client without downgrading in quality or extending beyond acceptable maturities executed by an experienced management team with credit research, portfolio management and trading experience**

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Biography

William J. Watkinson, Chief Investment Officer, of the Municipal Bond Advantage Strategy is President and CEO of Watkinson Capital Advisors LLC. He is responsible for establishing and implementing client asset allocation strategies, building fixed income positions and periodic portfolio rebalancing. He is involved in establishing and cultivating relationships with high net worth individuals, small to mid-size institutions and with financial advisors while directing the Municipal Bond Advantage Strategy's investment philosophy and process. Mr. Watkinson served as an Executive Vice President for the Wealth Management Division of Penn Liberty Bank, and a business development professional with an extensive background in the Fixed-Income arena, having worked with diverse financial service companies that total over 35 years of experience.

As Senior Vice -President of AXA Financial's Advest Division, Mr. Watkinson was responsible for their institutional research effort in the Mid-Atlantic region. He also served as a First Vice President for Prudential Securities from 1988-1998, and was a Vice President for E.F. Hutton & Co. from 1977 to 1988 in their Public Finance Department, responsible for municipal bond development in the tri-state area including both private wealth clients and institutional accounts.

A Paoli, PA resident for over 30 years, Mr. Watkinson's community activities include being a member of the Project Discovery Committee for the People's Light Theatre Company. Mr. Watkinson earned a Bachelor of Science degree from St. Joseph's University.

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