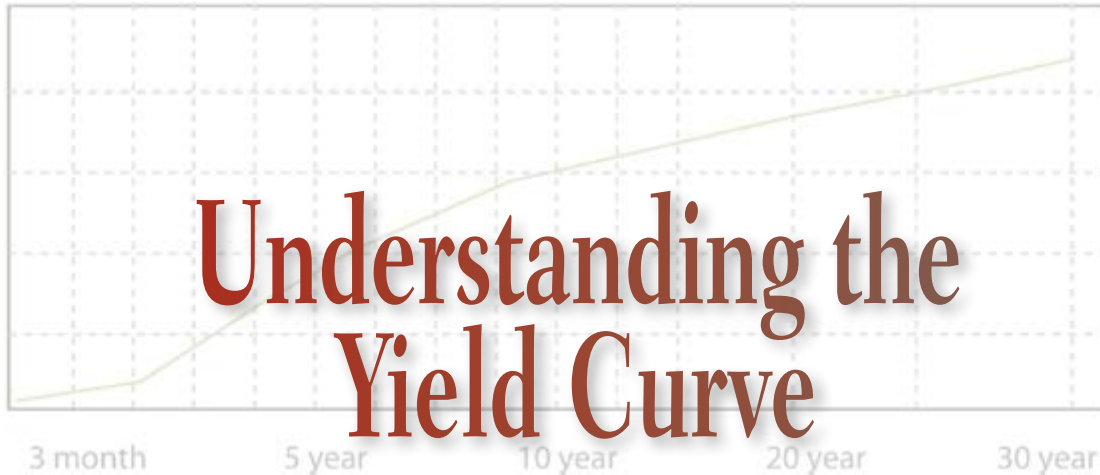


FINANCIAL insight

Summer 2010



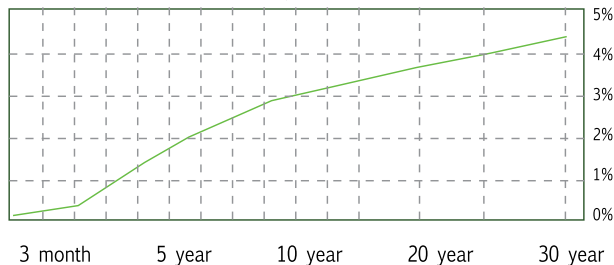
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Senior Vice President

Fixed income investors pay significant attention to what is known as the yield curve. This curve is a linear depiction of interest rates, or the yield, over varying maturities of a specific type of bond. Maturities are represented on the horizontal axis of the graph and the interest rate for each maturity is plotted on the vertical axis — so connecting the dots creates a line showing market rates.

U.S. TREASURY YIELD CURVE CHART 1
3 Month-30 Year JUNE 11, 2010



SOURCE: Bloomberg LP. For illustrative purposes only.

Chart 1 above — which depicts yield for U.S. Treasury bonds — shows the shape of the yield ascending

as the maturities lengthen. This is referred to as a positive, or normal, yield curve. Why normal? This is because long maturities are subject to a greater risk, hence the market demands higher returns.

The yield curve at left also shows us that rates are very low — near zero for very short maturities and only slightly above 4% on the 30-year bond. Low inflation, a slow domestic economy and European economic concerns have conspired to keep demand for U.S. Treasuries high and yields low.

CHANGES IN THE YIELD CURVE

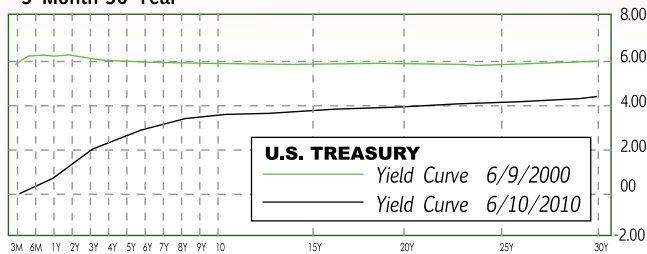
Yield curves are dynamic. So if you plot a yield curve using different dates, the shape of the curves may differ and the magnitude of the interest rates would differ.

For example, Chart 2 illustrates the yield curve today versus that of ten years ago. Both the magnitude and shape have changed. Yields are significantly lower today, around 4% versus 6%, on long maturities. The yield curve of June 9, 2000 was not only higher but it was a flat curve; rates were virtually the same irrespective of maturities. Such a shape is not “normal.”

MULTIPLE HISTORICAL CURVES

3 Month-30 Year

CHART 2



SOURCE: Bloomberg LP. For illustrative purposes only.

CHANGES IN SHAPE

The slope of the yield curve has been a reasonably accurate leading indicator of economic activity based on expectations of the market participants.

A **sharply positive** yield curve has often preceded a more robust economy. As the economy swells, investors expect that higher inflation and higher interest rates may occur. Such a result would be negative for long-term bond holders, so they to demand higher rates on long maturities.

A **flat** yield curve is a predictor of economic slow-down. Flat curves in the early 1990s signaled the recession of 1990-91. The flat curve noted in 2000 preceded the “dot com” meltdown and lower economic activity shortly thereafter. The Federal Reserve often raises short-term interest rates in very robust economies to stem rising inflation. This action helps create a flat curve by pushing up short rates toward those of long rates.

An **inverted** yield curve is definitely not normal. In this case, short-term rates are higher than long-term rates. This is a leading indicator of a coming recession. In the early 1980s, yields were very high, reflective of exceptionally high inflation. Short-term rates were about 2 points higher than long-term rates. The economy faltered mightily. Eventually inflation was moderated significantly as a result of the recession and other forces. Short term rates declined and the yield curve turned positive, which was predictive of coming economic expansion.

COMPARING VARIOUS TYPES OF BONDS

Sometimes it's important to compare yield curves

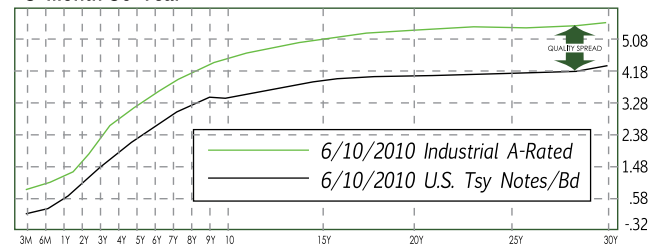
between two types of bonds — for example, U.S. Treasuries vs. better corporate bonds. This comparison helps identify risk premiums and relative value and can act as a predictor of future economic activity.

Chart 3 shows a comparison of Treasuries to A-rated industrial bonds. In this June 10 example, corporate bonds yielded over 1% more (another 25% higher) than Treasuries on the long end. At 10 years, the spread was particularly attractive.

FAIR MARKET YIELD CURVES - HISTORY

3 Month-30 Year

CHART 3



SOURCE: Bloomberg LP. For illustrative purposes only.

Changes in the “quality spread” are particularly important. In improving or strong economic times, the quality spread narrows dramatically. A robust economy makes it easier for companies to be profitable. That means credit concerns diminish. Conversely, a slowing economy causes credit concerns to increase. Bond investors sell corporate bonds and seek the safety of Treasury issues. This is referred to as a “flight to quality.” Spreads widen as yields rise on corporates and decline on Treasuries.

Counterintuitively, one may choose to be most conservative when spreads are very narrow; i.e., you are not being rewarded for taking more risk. Aggressive investors may find the best rewards occur when all appears darkest, when the economy is lackluster and spreads are widest.

Working with your Davidson Financial Consultant, you, as a fixed income investor, can benefit from an analysis and understanding of yield curves. As an identifier of investment opportunities and a predictor of economic trends, these curves are great analytic tools. Your Financial Consultant's historical perspective can give you one more tool in your tool belt.

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Great Falls, MT 59403
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Margin

When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from Davidson. If you choose to borrow funds from Davidson, you will open a margin account with Davidson. The securities purchased are Davidson's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan and, as a result, Davidson can take action, such as issue a margin call and/or sell securities or other assets in any of your Davidson accounts, in order to maintain the required equity in the account. It is important that you fully understand the risks involved in trading securities on margin. These risks include the following:

- You can lose more funds than you deposit in the margin account.
- Davidson can force the sale of securities or other assets in your account(s).
- Davidson can sell your securities or other assets without contacting you.
- You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.
- Davidson can increase its "house" maintenance margin requirements at any time and is not required to provide you advance written notice.

- You are not entitled to an extension of time on a margin call.

For more details, please contact your Financial Consultant for a Margin Disclosure Document.

Banks Insured Deposit Program

Davidson offers a cash sweep program through which cash balances in eligible client accounts are automatically deposited or "swept" into an interest-bearing deposit account established by Davidson with one or more banks (the "Banks"). The interest paid to clients on balances in the Banks' deposit account will vary because the applicable rates fluctuate monthly and are "tiered," meaning that the rate paid is based on the aggregate value of the client's Davidson householded accounts. Accounts with higher aggregate values generally receive higher interest rates than accounts with lower balances. The interest rates and Banks participating in the Bank Insured Deposit Program are posted on Davidson's website at http://www.davidsoncompanies.com/indv/a_services/92.cfm?linkid=92.

The cash balances in the Banks' deposit account are insured by the Federal Deposit Insurance Corporation ("FDIC"), an independent agency of the US government that protects depositors of banks and savings associations against the loss of their insured deposits in the event of a failure of a Banks or savings association at which deposits are held, subject to applicable limits. Currently, those limits are \$250,000 per depositor per Banks and \$250,000 for certain retirement accounts, such as traditional and Roth IRAs and self-directed Keogh and 401(k) accurate accounts. For more information about Davidson's Bank Insured Deposit Program, please visit the Davidson web site or contact your Financial Consultant.

Mutual Fund Investing

Please refer to Davidson's website <http://www.davidsoncompanies.com/dc/files/legal/mfdisclosure.pdf> for more information regarding mutual fund breakpoints, share classes, revenue sharing and other compensation Davidson may receive from mutual fund companies, or contact your Financial Consultant for a copy of this information.

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Business Continuity Plan

Davidson maintains a Business Continuity Plan to address potential significant disruptions to our normal course of business. Our plan outlines how Davidson would evaluate a significant business disruption and assist in the response if a building, city-wide, or regional incident disrupts our business. This plan is reviewed annually and updated as necessary. More details can be found at www.davidsoncompanies.com/dc/files/legal/BCPDisclosure.pdf. If you have any questions, please contact your Financial Consultant.

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Davidson continually monitors the markets in order to obtain the highest quality execution for its customers. Unless the customer gives specific instructions on where to route an order, Davidson may execute the order through regional or primary exchanges, with other brokerage firms that act as market makers, or Davidson may execute the order itself depending on the security involved and the size of the order.

Statistical data relating to Davidson's order routing (SEC Rule 606) is available at www.davidsoncompanies.com/dc/files/legal/sec_disclosure.pdf. To obtain information, including time of execution and execution venue, for a specific trade placed within the last 6 months; please contact your Financial Consultant.

Payment for Order Flow

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