JB INVESTMENT MANAGEMENT, LLC
Invest smarter. Achieve more.

June 30, 2013

BOND MARKET STRATEGY

Interest rates have risen quite abruptly following Federal Reserve statements that implied potential tapering of bond purchases known as Quantitative Easing. Total returns across most bond sectors turned negative in May and accelerated in June. For investors in separately managed accounts, this increase in interest rates offers opportunity for investors to achieve higher future expected returns, not realized losses. All bonds held in a separately managed account were purchased using a yield to maturity calculation. While changes in interest rates (yield and prices) prior to maturity will produce periods of both positive and negative returns, securities held to maturity will provide the original expected income and yield to maturity, nothing to fear. In fact, we encourage our clients to take advantage of the rising interest rate environment.

The possibility of the Federal Reserve beginning to reduce bond purchases in 2013 has meaningful implications for our bond market strategy. Portfolios have been structured during this extended period of low interest rates with minimal cash but a significant concentration of short-term securities. The objective was to build a position in securities that would exhibit low price volatility, provide yields higher than cash reserves and provide liquidity for reinvestment when rates begin to rise. We preferred the high-grade corporate bond sector to add an extra margin of yield while minimizing exposure to yield spreads. This allocation provides the opportunity to reinvest funds as rates move higher providing for increasing income and expected returns. The more rates rise, the higher expected bond returns we can look forward to.

An implication of a potential change in Federal Reserve policy is a noticeable drop in the relative performance of the riskier sectors in the bond market. The aggressive expansion of liquidity through QE has elevated the returns of riskier assets. Our portfolios have been structured to avoid the added volatility of these sectors while employing the liquidity of our short-term positions to reinvest and increase potential returns. High quality bonds help diversify a portfolio and provide protection from the unpredictability of stock market returns.

Another observation, many investors have been lured into "bond alternatives," REIT's, MLP's , Utilities and high dividend paying stocks to name a few. Recent interest rate increases have lowered bond prices.

INDEX RETURNS

6/30/2013	PERFORMANCE PERIOD		
DESCRIPTION	3 MONTH	6 MONTH	1 YEAR
Barclays Treasury Intermediate Index	-1.42%	-1.28%	-0.66%
Barclays Govt/Credit Intermediate Index	-1.70%	-1.45%	0.28%
Barclays Treasury Index	-1.92%	-2.11%	-1.64%
Barclays Govt/Credit Index	-2.57%	-2.67%	-0.62%
Barclays Aggregate Index	-2.32%	-2.44%	-0.69%
Barclays Corporate Index	-3.31%	-3.41%	1.36%
Barclays Corporate Intermediate Index	-2.38%	-1.82%	2.39%
Barclays Corporate High Yield Index	-1.44%	1.42%	9.49%
Barclays Corporate AAA Index	-3.82%	-4.55%	-3.45%
Barclays Corporate AA Index	-2.95%	-3.15%	-0.79%
Barclays Corporate A Index	-3.22%	-3.55%	0.78%
Barclays Corporate BAA Index	-3.47%	-3.28%	2.57%
Barclays MBS Index	-1.96%	-2.01%	-1.10%
Barclays TIPS Index	-7.05%	-7.39%	-4.78%

Source: Barclays

However, the impact on the "bond alternatives" has been even greater. Stretching for yield has provided some periodic benefits, but the recent price retreat in many of these alternatives highlights their potential shortfall. They are not bonds, do not trade like bonds and will not return your principal at maturity like bonds. Following the interest rate increases over the past two months, markets seem to have stabilized. For investors with cash or as short-term securities mature, it is a good time to go bargain shopping. In a traditional bond portfolio, price volatility can be structured and managed.

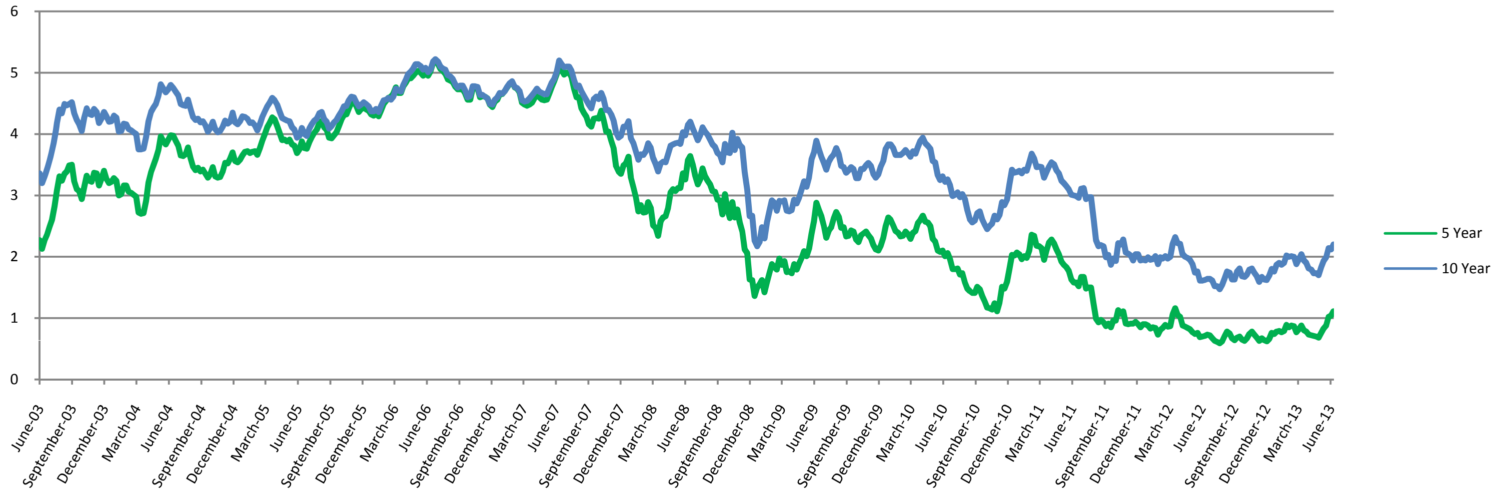
MUNICIPAL BOND YIELDS

DAILY GENERIC MUNICIPAL BOND YIELDS
Date 6/30/13

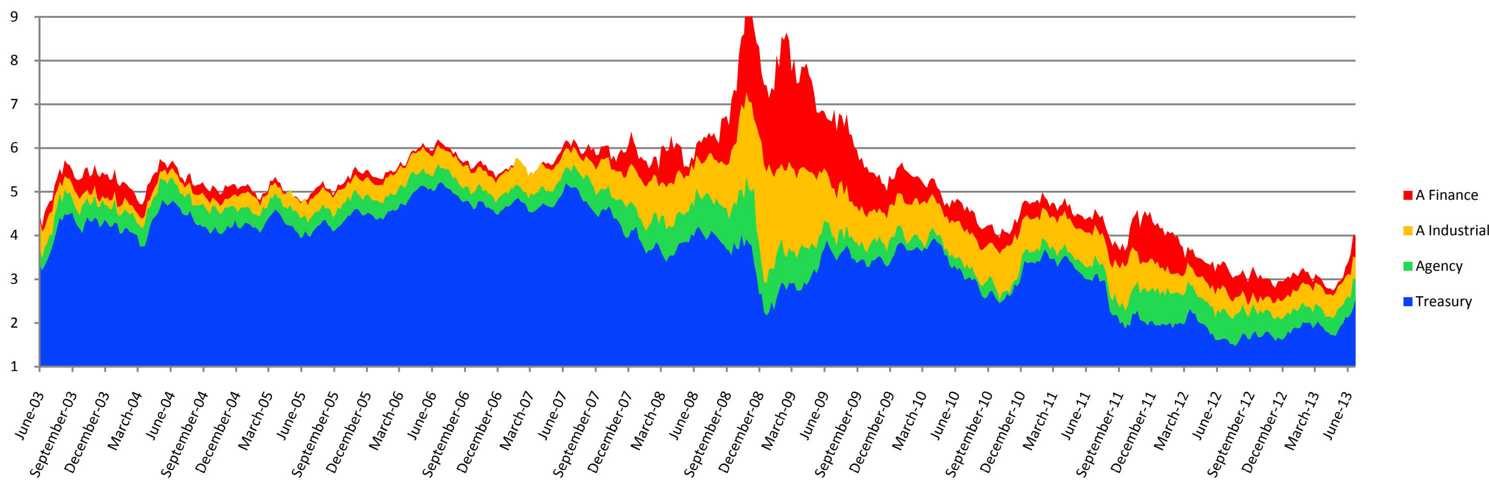
Term	Maturity	AAA	AA	A	BAA1
1 Yr	2014	0.19	0.40	0.87	0.94
2 Yr	2015	0.54	0.75	1.28	1.29
3 Yr	2016	0.93	1.17	1.75	1.66
4 Yr	2017	1.27	1.46	2.08	2.03
5 Yr	2018	1.56	1.74	2.43	2.36
7 Yr	2020	2.11	2.28	3.06	3.03
9 Yr	2022	2.65	2.86	3.62	3.64
10 Yr	2023	2.95	3.18	3.89	3.93
12 Yr	2025	3.40	3.60	4.15	4.26
14 Yr	2027	3.71	3.99	4.37	4.53
15 Yr	2028	3.85	4.15	4.50	4.70
17 Yr	2030	3.96	4.28	4.69	4.88
19 Yr	2032	4.00	4.37	4.97	5.09
20 Yr	2033	4.02	4.44	5.16	5.25
25 Yr	2038	4.08	4.91	5.69	5.79
30 Yr	2043	4.10	4.97	5.79	5.82

Source: Bloomberg

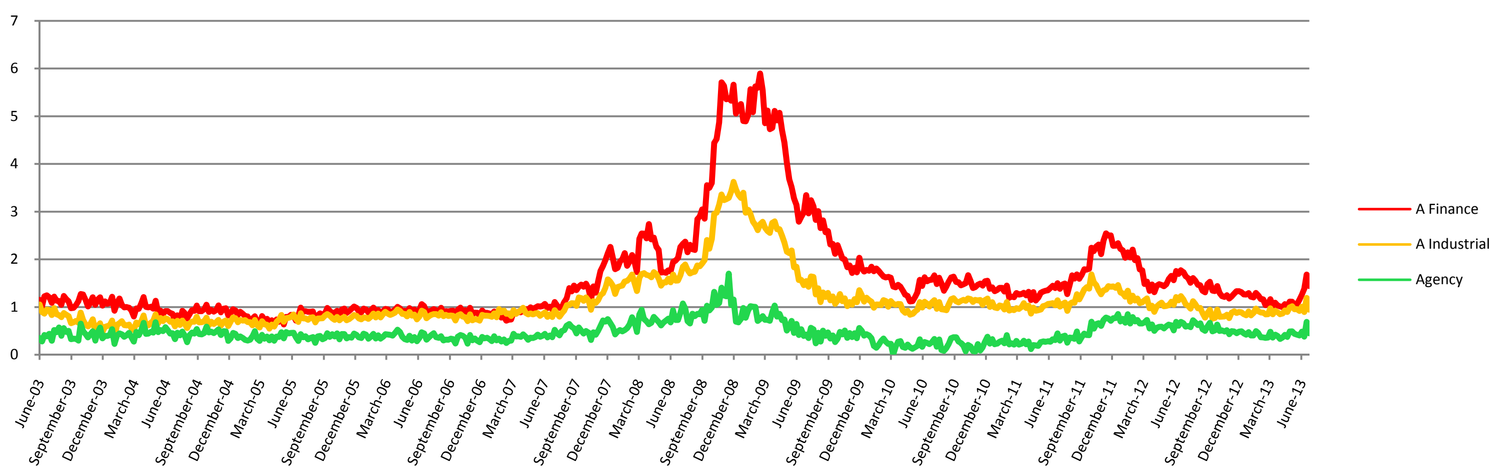
US TREASURY YIELDS
5 and 10 Year U.S. Treasury Yield
6/1/2003 to 6/30/2013



INVESTMENT GRADE YIELDS
Historical Yields - 10 Year Notes
6/1/2003 to 6/30/2013



CORPORATE BOND SPREADS
Historical Yield Spreads - 10 Year Notes
6/1/2003 to 6/30/2013



Source: Bloomberg