

Fixed Income Investing: More Than Meets the Eye

HOW WE ADD VALUE TO YOUR FIXED INCOME PORTFOLIO

It's hard to read a financial publication, browse a Web site or watch television without encountering a description of how to build a diversified stock portfolio to achieve long-term growth. With so much attention on stocks and much less on fixed income, it's easy to forget that your fixed income portfolio can be every bit as important to achieving your overall investment objectives. Our goal for you is simple:

To manage a portfolio that maximizes net returns (after taxes, fees and expenses) consistent with your financial objectives and risk tolerance.

For most investors, this goal includes fixed income. Our approach to fixed income investing includes a breadth of services, resources and expertise to achieve effective diversification:

- A focus on the priorities for your fixed income holdings — reducing risk within your overall portfolio and/or serving as an ongoing source for reliable income
- Assurance that your fixed income investing adheres to the same academically based disciplined investing principles that we recommend for all of your financial decisions
- Detailed analysis of your current fixed income investments, including overall strategy, quality, callability, tax efficiency and diversification
- Development of a fixed income investment policy based on your individual investment goals
- Objective, knowledgeable recommendations regarding security or fund selection

- Ongoing portfolio management to achieve your primary objectives and incorporate tax- and cost-saving techniques

There are several steps to building your fixed income assets:

1. Determining Taxable or Non-Taxable Holdings — How will you divide your fixed income investments among the taxable and non-taxable securities? The answer depends upon your individual tax situation and portfolio characteristics, and will determine which investments will give you the highest after-tax returns. For example, you may decide to purchase munis, which generally enjoy a tax-exempt status, if you are holding your fixed income within your taxable accounts.

Or, vehicles such as taxable funds or bonds might be your choice if you are building your fixed income within tax-exempt or taxsheltered accounts.

2. Individual Holdings or Funds — Next there's the decision of whether to purchase individual holdings (such as individual Treasury notes or muni bonds) or mutual funds, depending in part on the degree of control desired over the specific characteristics of your fixed income portfolio.

3. Security Selection — If you decide to purchase mutual funds, your final step is selecting the fund that offers the lowest fees while most closely matching your investment objectives. If you are instead selecting individual holdings, your task requires specialized expertise in the many types of bonds available and how to successfully blend them into an overall bond portfolio. It is here where we can add particular value to your fixed income investing.

BUILDING BOND PORTFOLIOS

If your financial profile suggests the need for a customized portfolio of individual bonds, we can assist you through our quality bond services. Here, we add value in several ways.

Individual bond selection — Expertise in specific selections is critical. To name just a few, selections for tax-exempt needs can include general obligation or essential service revenue bonds. For taxable needs, selections include callable or non-callable agency bonds, CDs, corporate bonds and CMOs. Out of all the choices, some are more appropriate than others for building your highquality bond portfolio; we help you select the ones that are right for you. You'll also benefit from purchase of individual bonds within their "yield curve sweet spots" (the maturity range in which the investor stands to reap the greatest reward relative to the risk of extending the maturity).

Expert bond portfolio construction — With staff who specialize and are dedicated to bond portfolio construction, we are able to implement the sophisticated fixed-income investment techniques intended to maximize your bond portfolio returns. For example, we build the best configuration for your bond portfolio, using techniques such as "laddered" or "bulleted" constructions.

We further enhance net returns through maturity and callability features; determining the appropriateness of in-state or out-of state holdings; addressing alternative minimum tax (AMT) considerations; reducing uncompensated risk by focusing on bond characteristics such as investment grade, sector concentration and geographical diversification; and more. Our expertise results in a carefully constructed, long-term approach to fixed income investing that supports your individual financial goals while building the stability that is essential to this portion of your portfolio.

Ongoing management — Our service doesn't end with initial setup of your portfolio. We continue to add value on an ongoing basis through regular portfolio adjustments as

appropriate; delivery of market innovations as they become available; ongoing tax, credit and maturity management; and regular educational pieces to keep you informed about your investments.

Superior, cost-effective, independent selection — Traditional brokerage relationships often limit investors to in-house bond inventories, and substantial invisible markup fees are common. Instead, we maintain access to multiple broker/dealers and bid lists, giving us a larger pool from which to select the right bond securities for you at the most competitive pricing. With no inhouse inventory, we have no vested interest — other than your best interests — in the securities we make available to you. Further, we have immediate access to a team of bond analysts, a sophisticated Nationally Recognized Municipal Securities Information Repository (NRMSIR) nationwide bond profile database, and other tools to analyze the true value of a bond security ... prior to selection and purchase.

Competitive buy and sell pricing — We bring the best of both worlds by providing customized, individual service, backed by our formidable bond purchasing capabilities. We frequently take advantage of volume discounts, wholesale or institutional-level pricing on individual securities, purchasing near the bid rather than at the offer, and block trading opportunities — all of which translate to better offerings and prices. If you need to sell your holdings, we take advantage of this same network to seek multiple bids from across the country, thereby garnering a higher sales price for you.

No Markup Fees/No Conflict of Interest — Because our fee-only approach is based solely on your assets under management with our firm, we cannot add markup fees on individual purchases. In direct contrast to the typical brokerage service, our approach not only eliminates any potential conflict of interest in our purchase recommendations, it enables us to pass directly to you any discounts we achieve on your bond investments.

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