

February 19, 2009 - The following three questions were posed today by holders of Nuveen Preferred Stock Funds:

Question One - If these generate preferred dividends, and the banks are using their "bailout" money to pay dividends, why are the values dropping precipitously? Where's the "leverage" come from?

Answer: The market is anticipating the nationalization of some of the banks - Bank of America and Capital One are two of those banks that are being mentioned. My sense is that these banks may be brought into some kind of conservatorship structure and the common stock will go to zero. That being said, if the preferred stock is not preserved and dividends continue to be paid, it will be almost impossible to recapitalize these banks in the private equity marketplace - i.e. Lehman Bros and FNMA. My sense is that the preferred stock will not be zeroed out because of the need to recapitalize the banks at some point in the future- the too big to fail problem. However, the market is discounting this and looking at a total loss.

The Nuveen Fund (symbol JTP) uses between 30% and 40% leverage. That money was borrowed thru the Auction Rate Preferred (ARP) market - which is a market that is closed and not likely to ever be used again. The ARP borrowings are being repaid by substituting other bank borrowing - Commercial and Industrial Loans. Where necessary, assets are sold to repay the ARP's if necessary.

Question Two - I thought we had gotten out of equities completely, but must have misunderstood your last advisories. We concur with your recommendation to sell and reinvest in whatever best preserves capital - we don't depend on dividends, although they are nice to receive.

Answer: I classify closed end funds such as the Van Kampen Sr. Loans, the Eaton Vance Ltd Duration fund, the Nicholas Applegate Convertible fund, the Nuveen funds and some others, as fixed income rather than as equities. This is done because we use these funds to increase the cash flows to a portfolio. They are leveraged by the fund manager in order to provide higher yields.

Question Three - Although the S&P has been below 800 for the past 2 days, I still think it will rebound - what do you think?

Answer: I think that the market will try to bounce up for the next few weeks but that it is likely to be a very weak bounce. My sense is that the S&P will go down into the low 600s sometime in the next couple of months. Then we will have to see what the economy looks like to decide if it is a buy or not.