



**Ohio Association of
Public Treasurers**

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Stable Investments in 2011

**2011 Annual Conference
October 5, 2011**

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Where are we today?

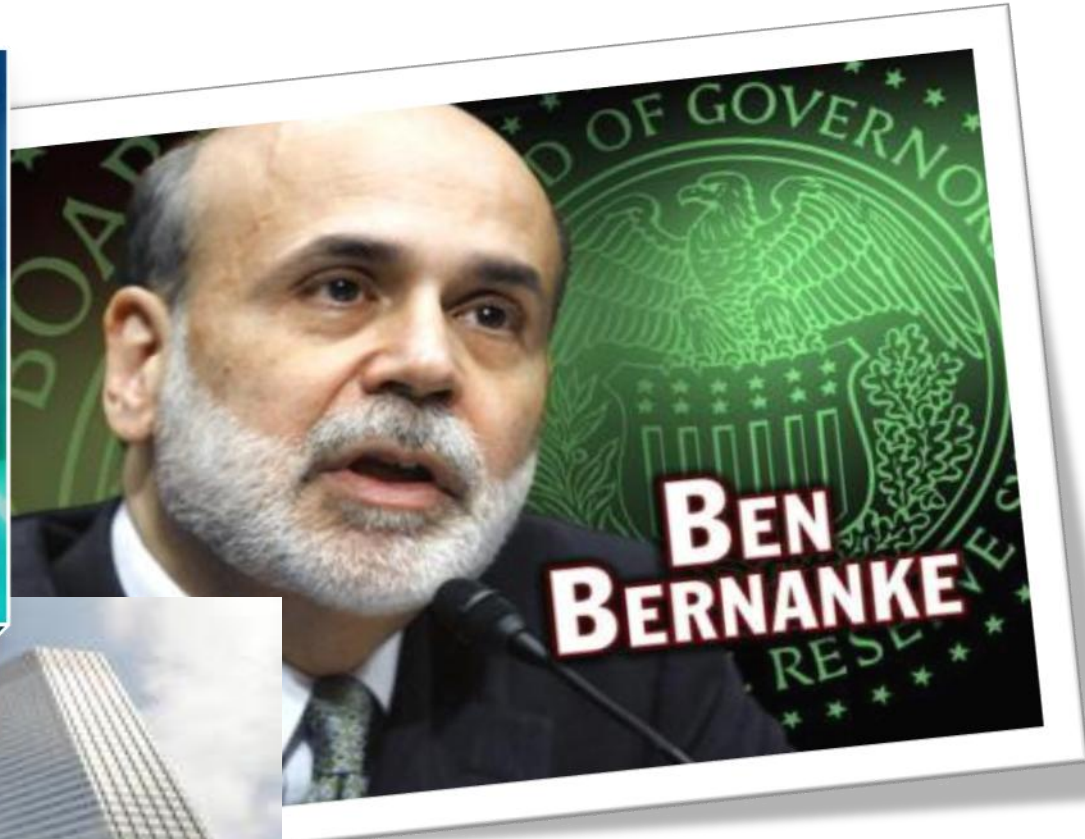
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**“STABILIZING AN
UNSTABLE ECONOMY”**

1986 – Hyman P. Minsky, Ph.D.

Current Issues

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National Crisis

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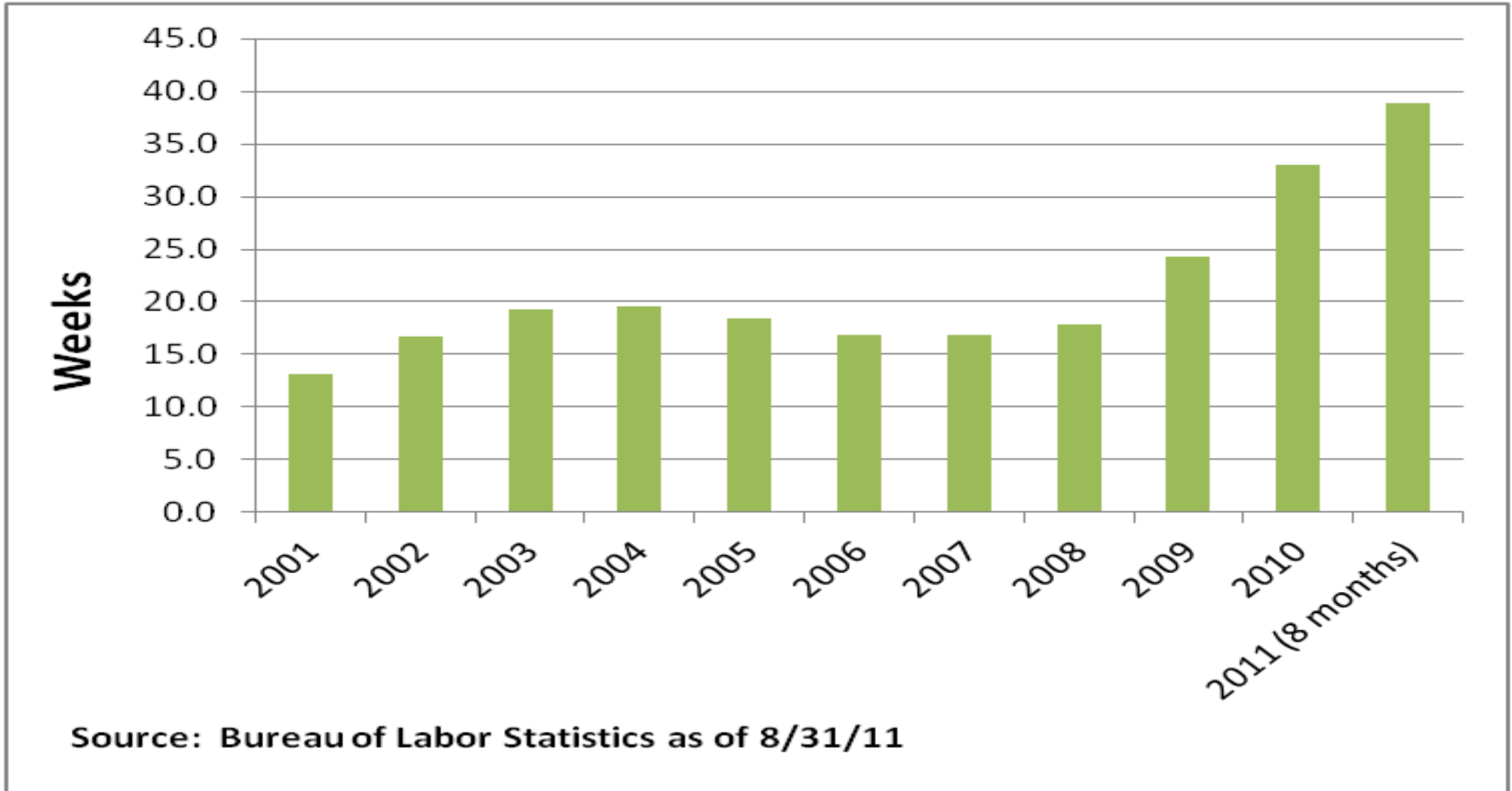
“The unemployment situation we have, the job situation, is really a national crisis”

Federal Reserve
Chairman Ben
Bernanke
9/28/11



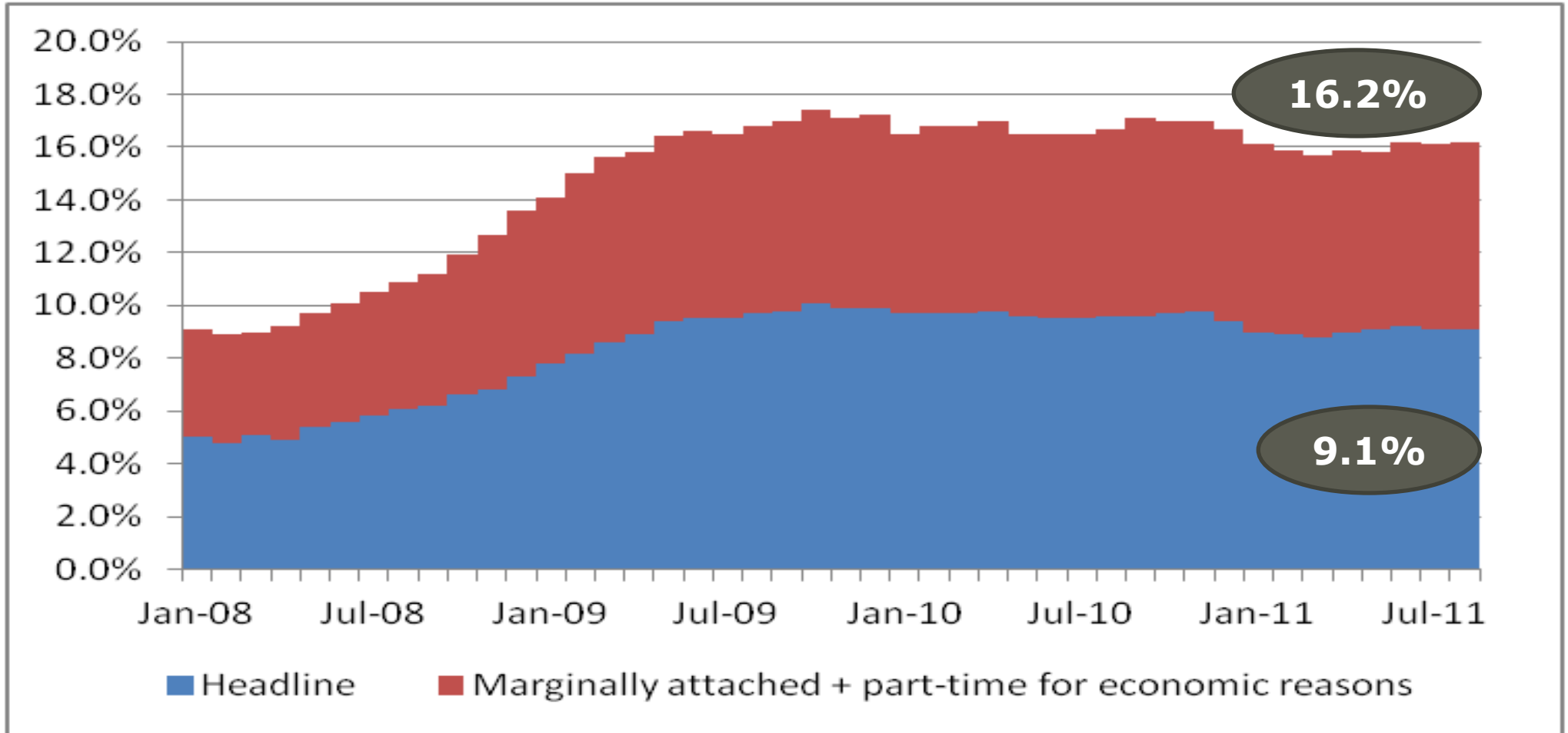
Average Weeks Unemployed

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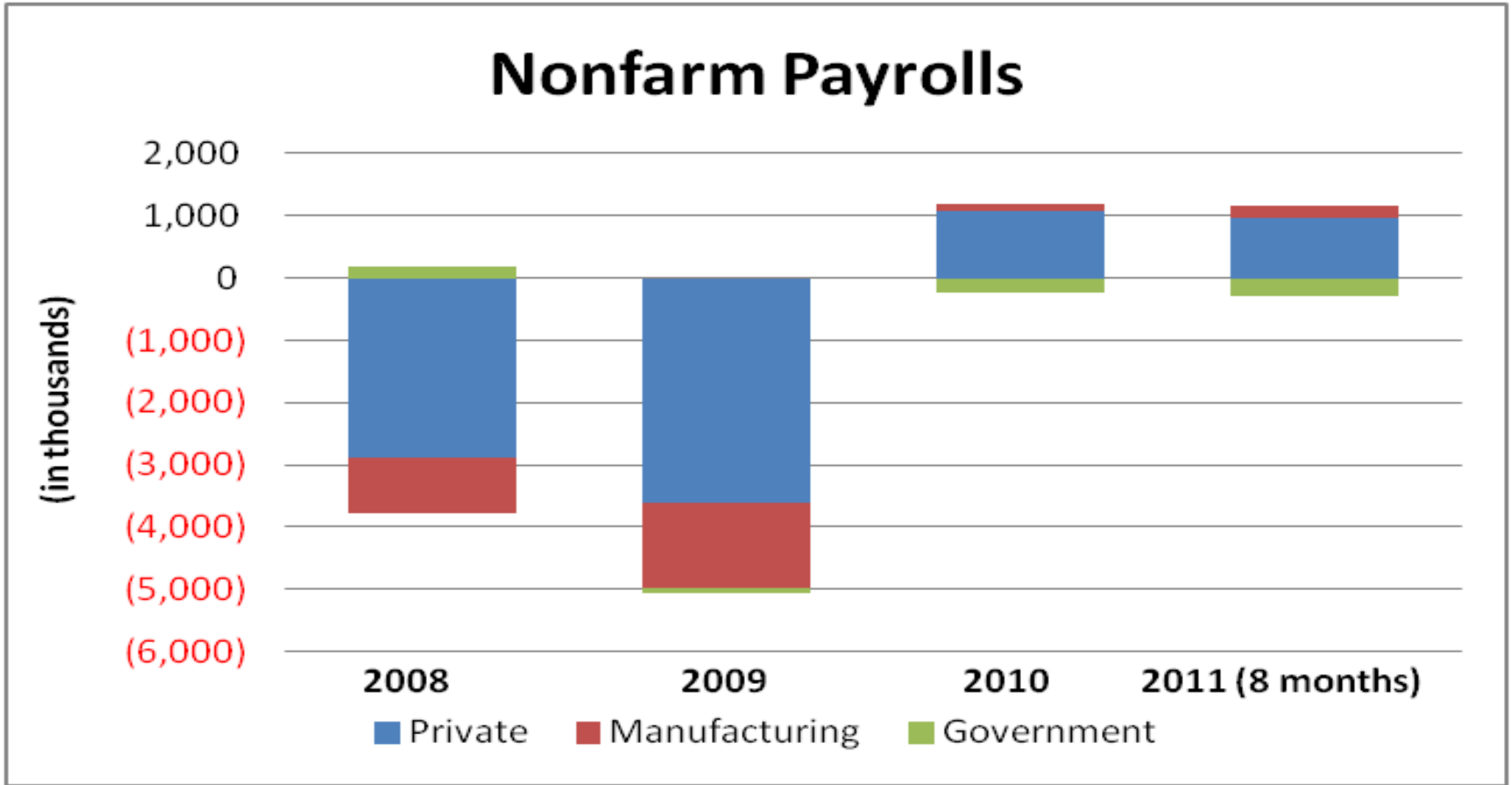


Unemployment

U6 – Alternative measure of Unemployment



Job Creation



Source: Bureau of Labor Statistics as of 8/31/11

American Jobs Act

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Source: USA Today 6/20/11

Housing

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Housing

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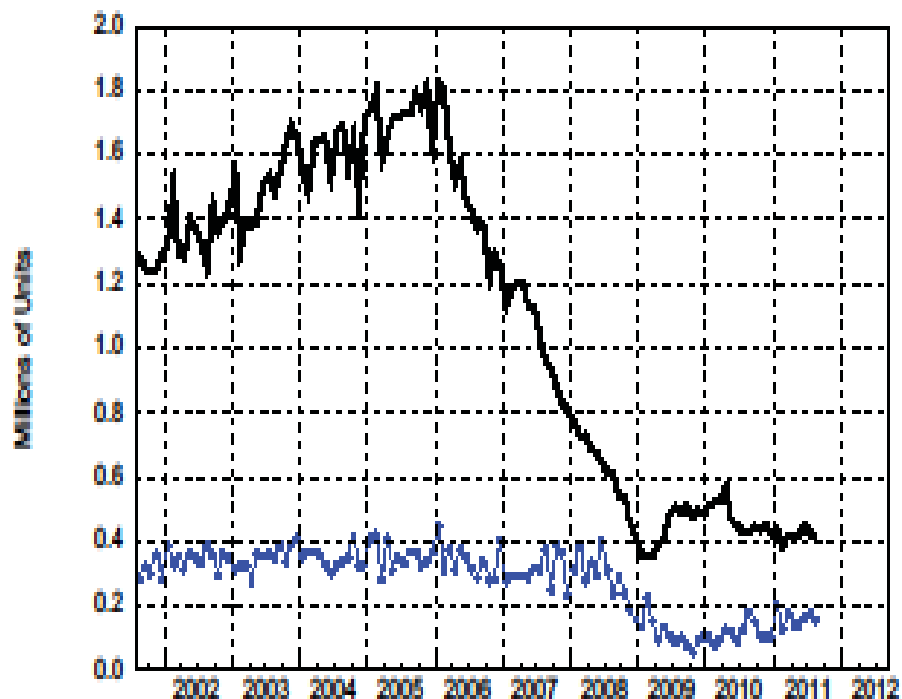


Housing Still Weak

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HOUSING STARTS

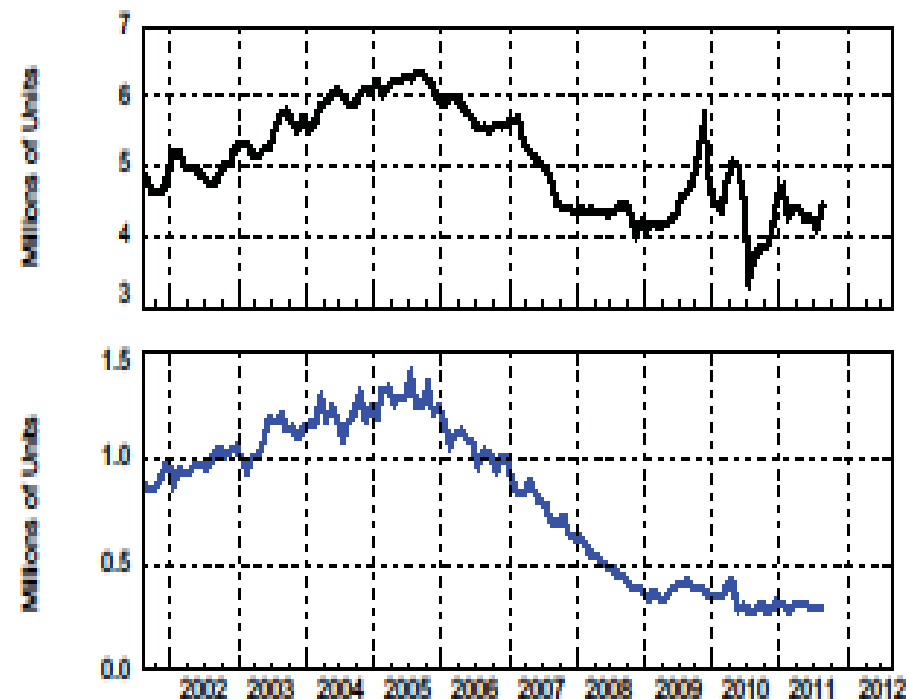
Seasonally Adjusted Annual Rate



Note: Single Family (Black), Multiple (Blue)
Source: Census Bureau

SINGLE FAMILY HOME SALES

Seasonally Adjusted Annual Rate



Note: Existing (Black), Newly Built (Blue)
Source: Census Bureau

Monetary Policy Actions

12/6/08 - Target range 0.0%-0.25%

8/9/11 - Commitment to keep rate low through mid-2013

ASSET PURCHASE PROGRAMS			
<i>Announced</i>	<i>US Treasuries</i>	<i>Agencies</i>	<i>Agency MBS</i>
11/24/08		\$100 billion	\$500 billion
3/18/09	\$300 billion	\$75 billion	\$750 billion
8/10/10	Reinvestment program		
11/3/10	\$600 billion		
9/21/11	Operation twist		

Operation Twist



Maturity Extension Program
\$400 billion rebalance
October 2011 – June 2012

Reinvestment Policy
Principal payments from holdings
of agency debt and agency MBS
reinvested in agency MBS

Maturity Extension Program

<i>Maturity</i>	<i>3 months – 3 years</i>	<i>6 – 8 years</i>	<i>8 – 10 years</i>	<i>10 – 20 years</i>	<i>20-30 years</i>	<i>TIPS 6-30 years</i>
Sell	\$400 billion					
Buy		\$128 billion	\$128 billion	\$16 billion	\$116 billion	\$12 billion

Objective – lower long term rates to support economic growth and mortgage markets

Source: Federal Reserve Bank of New York and Federal Reserve Board of Governors, 9/21/11

Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents June 2011

	Longer Run	2011	2012	2013
GDP	2.5%-2.8%	2.7%-2.9%	3.3%-3.7%	3.5%-4.2%
Unemployment Rate	5.2%-5.6%	8.6%-8.9%	7.8%-8.2%	7.0%-7.5%
Inflation	1.7%-2.0%	2.3%-2.5%	1.5%-2.0%	1.5%-2.0%

Source: Federal Reserve Board of Governors, 6/22/11

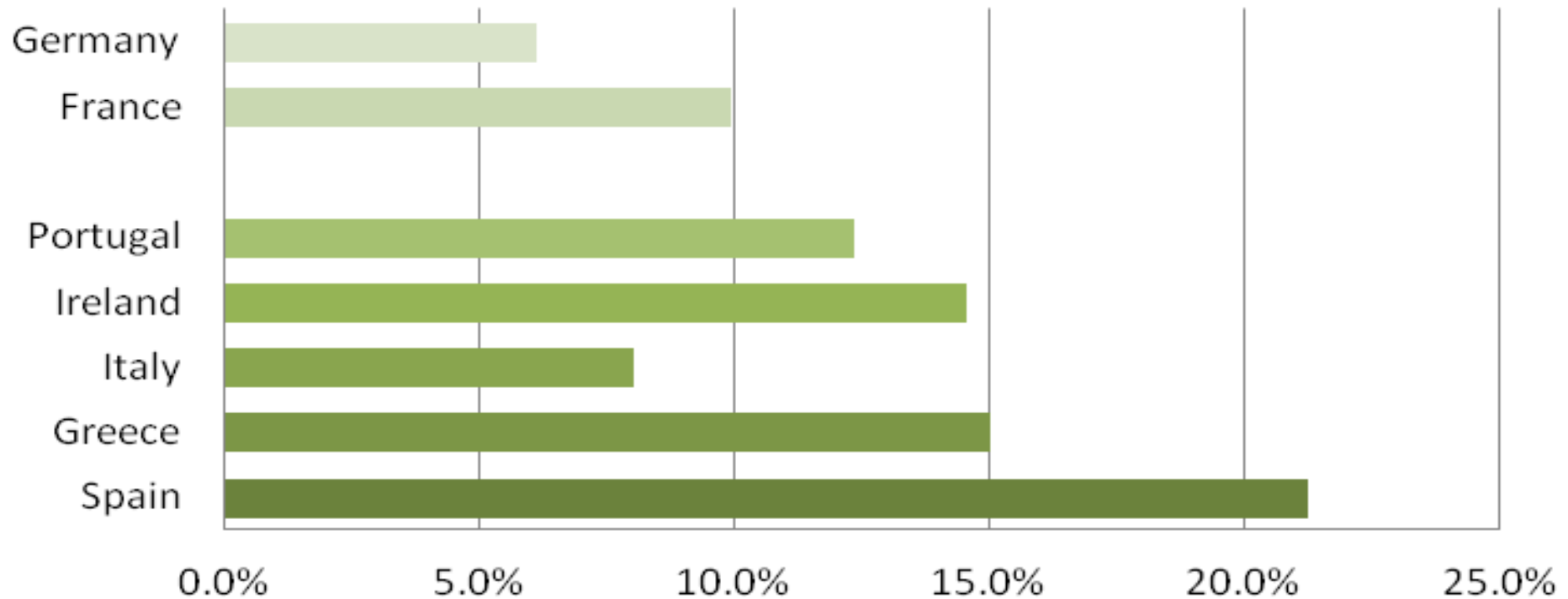
European Debt Crisis

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Why Worry?

Euro Zone Unemployment Rates



Source: Eurostat 8/31/11

Why Worry?

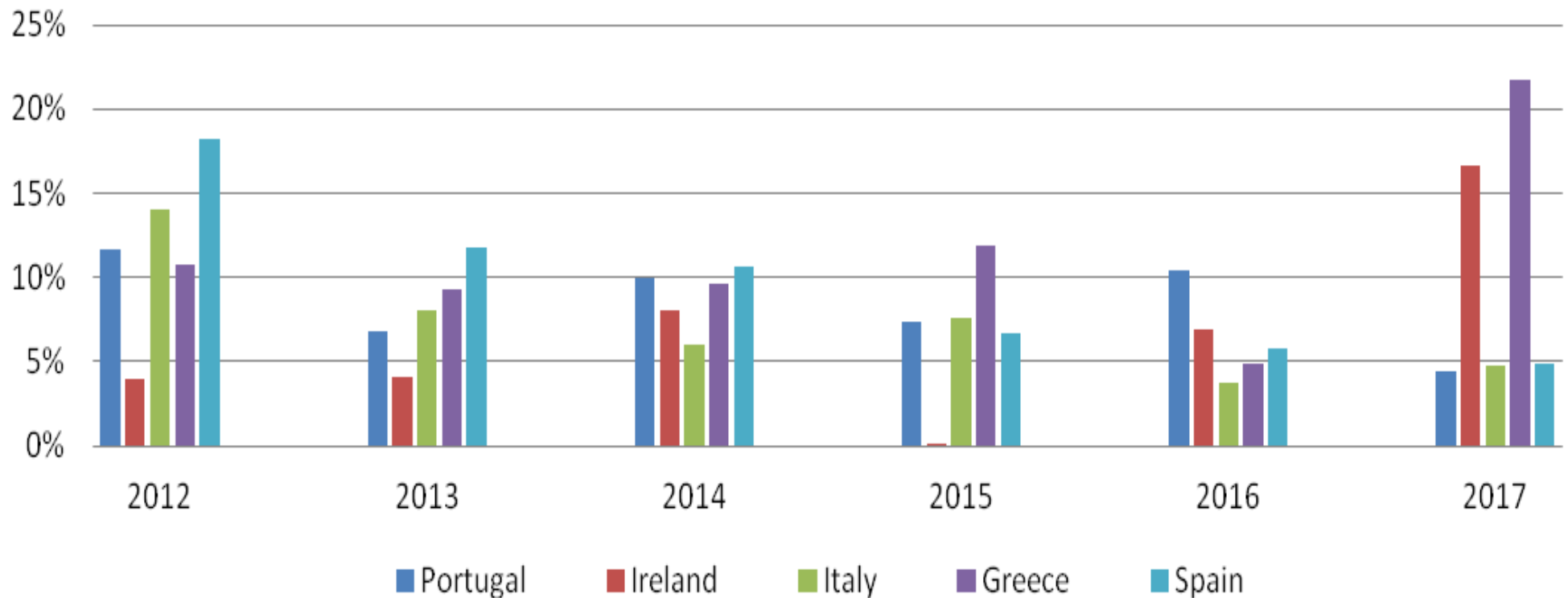
Government debt as % of GDP 1Q2011



Source: Eurostat, "Basic Figures on the EU" 8/11/11

Why Worry?

Scheduled Debt Maturities as % of Debt Outstanding

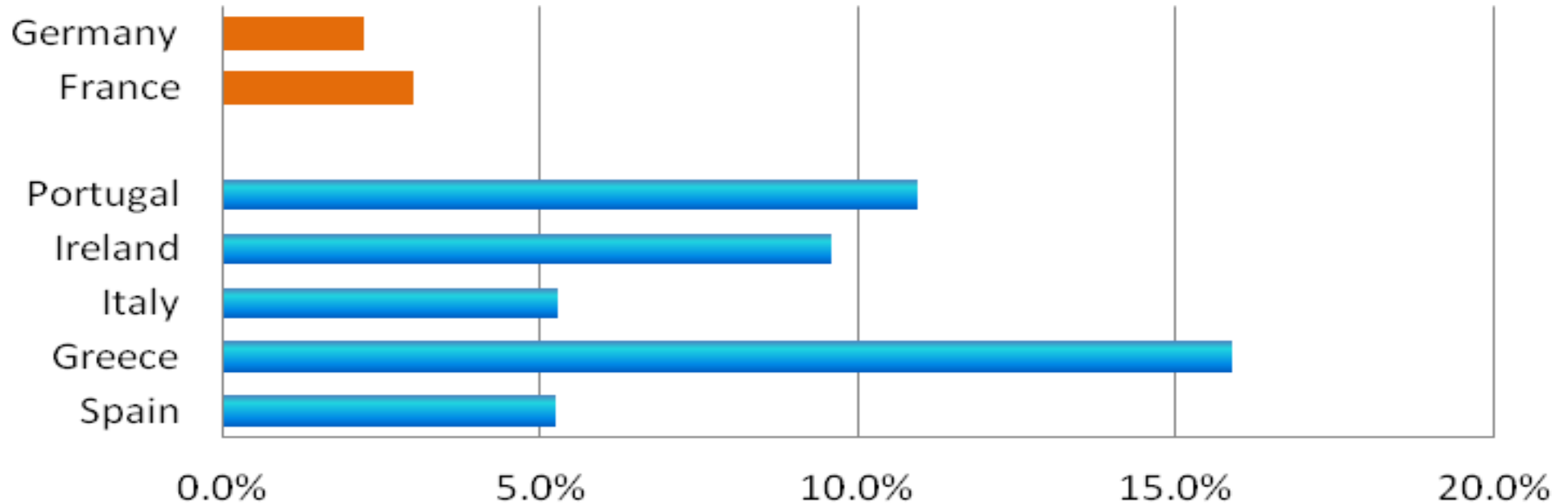


Source: Bloomberg 8/3/11

Market Reaction

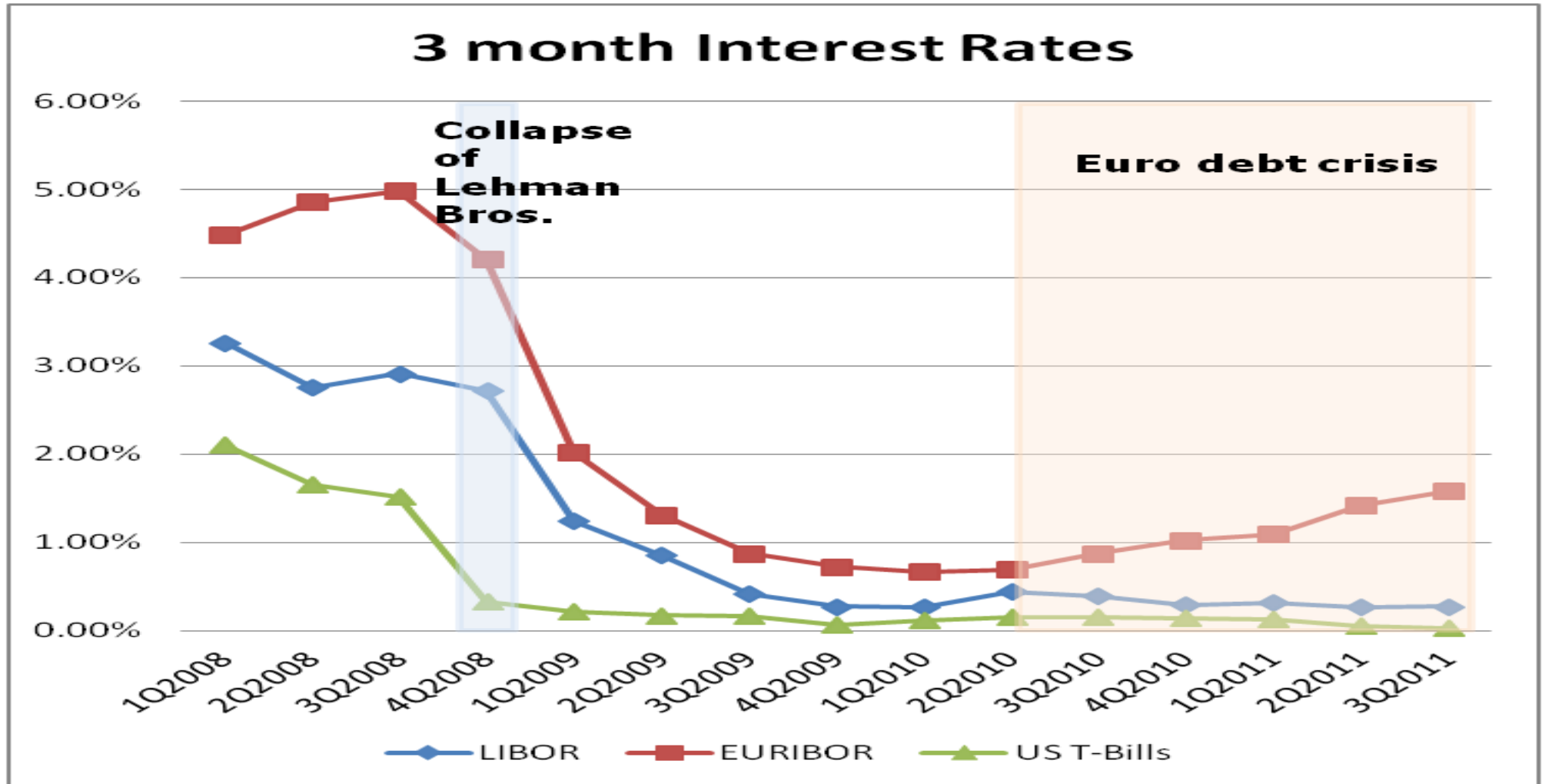


Average 10 yr Government bond rates August 2011



Source: Eurostat 9/29/11

Market Reaction



What to do with this Information

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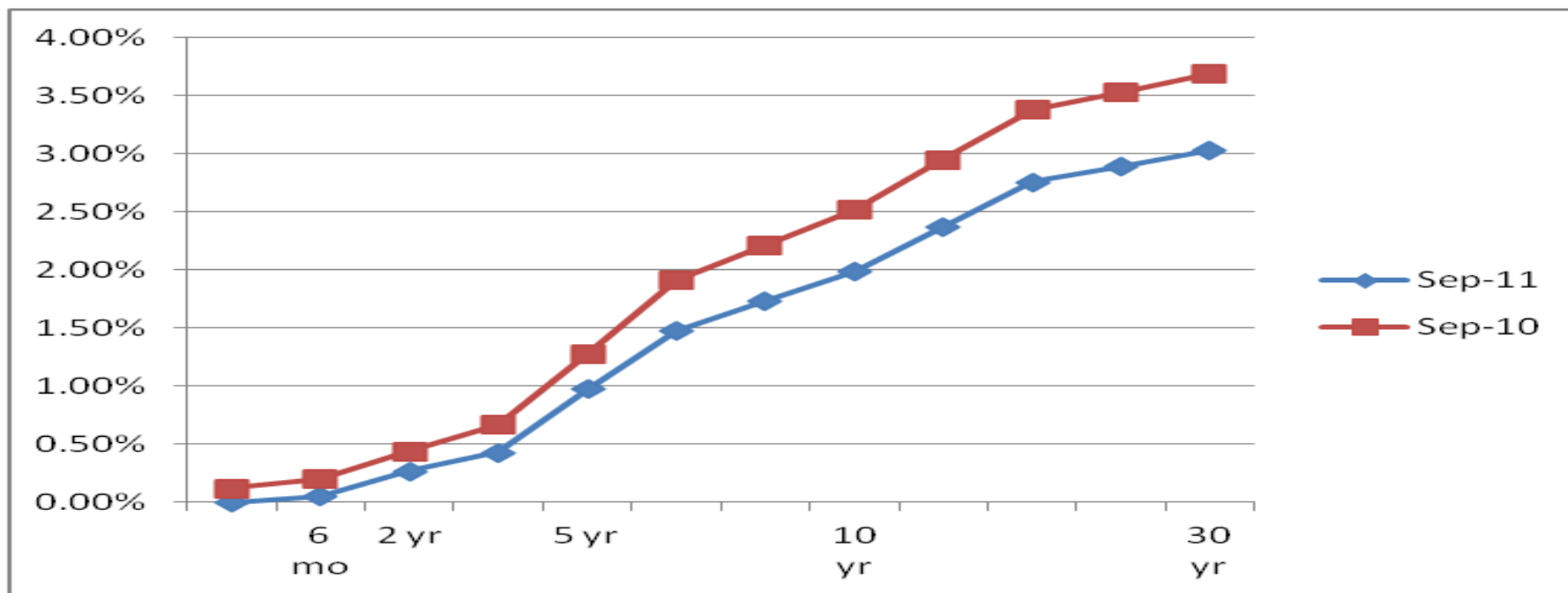
Investing Thoughts

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U.S. Treasury Yield Curve Comparison

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<u>Maturity</u>	<u>Sept 2011</u>	<u>Sept 2010</u>	<u>Change</u>
6 month	0.05%	0.20%	-0.15%
2	0.27%	0.44%	-0.17%
5	0.98%	1.28%	-0.30%
10	1.99%	2.52%	-0.53%
30	3.03%	3.69%	-0.66%

Source: www.treasury.gov 9/30/11



Investment Risks

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Prudent Investment Management = Risk Management

Risk Management

RISK		
Call risk	Short lock-up (ie: 1 month)	Long lock-up (ie: 1 year)
Credit Risk	Commercial Paper Corporate Bonds	US Treasuries
Interest Rate Risk	Longer maturity	Shorter maturity
Liquidity Risk	Certificates of deposit Callable step-ups	Bank accounts US T-bills Agency discount notes
Re-investment Risk	Shorter maturity Callable agencies	Longer maturity Non-callable agencies

What Happened?



INTEREST INCOME

2007 actual	\$1,469,598
2008 actual	\$ 687,783
2009 actual	\$ 108,703
2010 actual	\$ 27,594
2011 projected	\$ 20,000

POSSIBLE EXPLANATIONS

- Lower fund balances
- Market conditions
- Investment risk

Take the Lead

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Communicate

- **Guide expectations**
 - **Economic outlook**
 - **Interest rate environment**
 - **Actual versus budgeted interest income**
- **Investment portfolio facts and activity**
- **Comparison of performance to a benchmark**
 - **STAR Ohio**
 - **Treasury Index**
 - **Combination**



Questions?

