

MONEYWATCH

ADVISORS

Newsletter to Clients

June 2010

Remember this from last month?

Our BlackRock Floating Rate Income Trust (BGT) bounces from the low fourteen dollar area to the high fifteen dollar area and each time it goes up I think it will finally break through the \$16 level. Here's the problem. Tons of people bought lots of shares between fourteen and the high fifteen dollar range and saw their stock fall like a stone in flight during the financial crisis. Most people who invest do so out of greed that is, hoping to make a profit. Should the investment fall in value, fear kicks in and the natural inclination is to want to get even. In fact, the reason most investors never succeed is because they lack discipline. Once all the undisciplined BGT holders get out, the stock price can move higher.

So much for that prediction...Now BGT is bouncing between \$13 and \$13.50. Our long range prediction is that we remain confident that we will see this price go higher in the future. However, one good thing that has happened recently is that BGT has increased its monthly distribution to seven cents per share. While this increase is not large, the direction, upward, is encouraging. We expect to see more distribution increases in the future based on increased earnings from the holdings in the portfolio, increased utilization of leverage and gains from investments made during the period of abject fear following the failure of Lehman and AIG Insurance and the near collapse of the financial system.

The Federal Reserve Bank will eventually increase short term interest rates. Increases in short term interest rates translate into higher earnings from variable rate loans and bonds which make up most of the BGT portfolio. Let us address the portfolio. In this portfolio, approximately 75% of the investments are in bank loans, the majority of which are senior and secured. Senior means these loans are paid before others in the event of financial troubles. Secured means they are backed by hard assets like machinery and equipment usually vital to the operation of the business.

BlackRock management exercises great care in the selection of loans and bonds for our portfolio. The primary investment objective is to provide a high level of current income consistent with its secondary objective, preservation of capital. The senior, secured part of the portfolio holdings helps with the secondary objective. Leverage helps with the achievement of the high current income. Leverage works like this: imagine a situation where you can earn \$84.00 per year on an investment of \$1,350.00. Your return (\$84) amounts to 6.2% of the total investment (\$1,350). Imagine next that you can borrow \$1,350 from a bank at an interest rate of 3.25% (the current Prime Interest Rate). You pay \$47.25 in interest annually to earn \$84, and net \$36.75. Obviously, risks exist when you borrow to invest and we are not recommending such strategy for you, but that is what the BlackRock team does. The percent leveraged on December 31, 2009 was 20.8%, not 100% as used in our illustration.

Thanks for your continuing confidence.