ALPHA INVESTMENT MANAGEMENT

ALPHA/PIMCO Bonds Plus Strategy

The ALPHA/PIMCO Bonds Plus Strategy combines one of the world's best bond managers (Bill Gross) with Alpha's fourth quarter "power trades" to create a unique solution to the conservative investor's dilemma: how to safely invest for income while increasing the asset base at a rate greater than inflation after taxes.

The long-term return target for this strategy is 8% - 12% annually over rolling five-year periods. The strategy seeks positive returns every year.

This strategy uses two funds managed by Bill Gross, the co-president of PIMCO. PIMCO is the largest bond manager in the world and Gross is a legend in the industry, having won the Morningstar Fixed-Income Manager of the Year award three times in the past ten years.

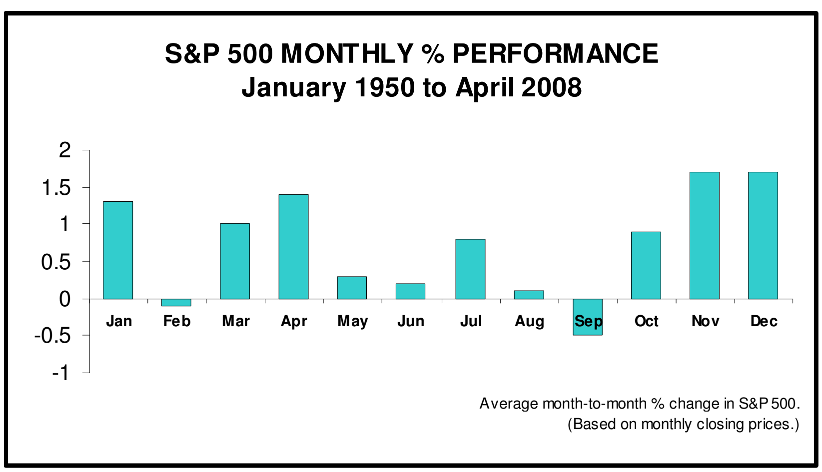
Bonds Plus uses the PIMCO Total Return Fund and the PIMCO Low Duration Fund. The Total Return Fund is an intermediate maturity fund which gives Gross wide latitude in its management. It is the largest bond fund in the world, yet it continues to deliver top-ranked results. Gross is an active manager who is not afraid to take big bets on sectors and may, at times, hold large cash positions. The Low Duration Fund is extremely conservative, holding mostly treasury securities in the 1-3 year maturity range.

Our strategy assumes a 70% Total Return / 30% Low Duration "normal" allocation from January until late-October. At that point, we take 60% of the portfolio and dedicate it to three "power period" trades which exploit the unique profit opportunities of the fourth quarter of the year.

The Fourth Quarter and Small Cap Stocks

The fourth quarter of the year is the best quarter for the stock market. In particular, the period from late-October to year-end is especially consistent in producing above-average gains.

As you can see from the table, the May to October period has been especially weak compared to the rest of the year. In fact, the market, during this period, has been flat on average, with September being negative overall. This summer weakness is not just a U.S. phenomenon. Academic research has established this pattern of weak-to-negative returns in the summer for 36 out of 37 developed and emerging markets. In many of these markets, the summer "dead zone" is far more pronounced than in the U.S.



There is much speculation about what causes this pattern, but no consensus. One likely cause is the tendency of stock market pundits and research firms to revise their yearly forecasts downward as the fourth quarter approaches. Their forecasts are almost always too optimistic. In addition, institutional investors do quite a lot of tax rebalancing just prior to the fourth quarter, which puts downward pressure on the market. What ever the cause, the effect is undeniable – the market tends to deliver sub-par returns from May to October, then "wakes up" in November. The average daily gain for the Dow Industrials from November to May was 27.4 times higher than the average daily gain during all other trading days (1949-2008).

This resurgence in the stock market is particularly strong in small cap stocks. Perhaps investors, looking at rosier forecasts for the new year, concentrate on riskier stocks with more profit potential. Market observers have known for a long time that small cap stocks outperform large cap stocks at year-end. The average return for the Russell 2000 small cap index in December since its inception in 1979 has been 2.8%, compared to the S&P 500's average of 1.5%.

Power Periods

In the fourth quarter, there are three sub-periods (we call them "power periods") which are especially potent and consistently positive. They are:

Power Period #1: Last two trading days of October and first two trading days of November
Power Period #2: Last six trading days of November and first three trading days of December
Power Period #3: Last seven trading days of December

These three periods exploit other lesser known "seasonal factors" in addition to small cap dominance at year end. For example, it is well established that the market does better during the month-end and month-beginning period than other times. Also, the market tends to produce above-average returns around holiday periods (Thanksgiving and Christmas).

The table to the right shows the performance of the Russell 2000 small cap index since its inception during our three power periods.

Over the past 31 years, the average return per quarter has been 6.4%. This return represents an annualized rate of about 200%. There have been just two losing quarters over this time period, representing a 93.5% win rate.

We know of no other market-based factors which come close to delivering this kind of return with such unerring consistency.

The ALPHA/PIMCO Bonds Plus Strategy uses special index funds to increase the "beta" of these power period trades to 1.5. We believe that this is a controlled risk, justified by the consistently high "win rate" of these periods.

The 1.5 Beta Statistics section of the chart shows that the two historical losses have been minor while the average trade has generated gains of 3.2%. Overall, the three power periods have produced an average gain of 9.7% per quarter while exposing assets to market risk just 8% of the time each year.

Russell 2000
Fourth Quarter Power Periods

Power Period One = Last two days of October, first two days of November
Power Period Two = Last six days of November, first three days of December
Power Period Three = Last seven days of December

Year	Power Period One	Power Period Two	Power Period Three	Total Return	Total Return With 1.5 Beta
1979	2.37%	6.05%	1.85%	10.80%	16.60%
1980	1.33%	0.12%	2.16%	3.64%	5.40%
1981	3.11%	2.18%	0.12%	5.48%	8.40%
1982	2.72%	2.64%	2.30%	7.85%	12.00%
1983	-0.91%	0.73%	1.36%	1.17%	1.80%
1984	0.53%	-2.26%	0.79%	-1.00%	-1.50%
1985	1.02%	3.27%	1.58%	5.97%	9.20%
1986	1.18%	3.00%	-1.38%	2.77%	4.20%
1987	10.80%	-5.20%	0.49%	5.55%	8.40%
1988	0.21%	2.48%	1.98%	4.73%	7.20%
1989	0.17%	1.08%	3.33%	4.62%	7.10%
1990	0.55%	5.26%	1.24%	7.15%	11.00%
1991	1.08%	-0.17%	7.56%	8.53%	13.40%
1992	0.92%	2.89%	2.79%	6.73%	10.30%
1993	1.64%	1.16%	3.19%	6.09%	9.30%
1994	0.60%	-1.55%	3.99%	2.99%	4.60%
1995	2.17%	3.92%	3.22%	9.59%	15.00%
1996	0.55%	3.01%	1.82%	5.46%	8.40%
1997	1.73%	0.75%	3.99%	6.58%	10.00%
1998	4.27%	0.18%	4.93%	9.61%	14.90%
1999	3.70%	0.75%	5.95%	10.69%	16.70%
2000	5.58%	1.20%	5.48%	12.70%	18.70%
2001	0.88%	5.93%	1.37%	8.32%	12.90%
2002	4.91%	0.58%	-0.06%	5.45%	7.30%
2003	1.34%	3.72%	1.85%	7.05%	10.70%
2004	-0.29%	4.61%	0.84%	5.18%	8.00%
2005	5.21%	1.15%	0.09%	6.51%	9.90%
2006	-2.05%	0.72%	0.73%	-0.60%	-1.10%
2007	-2.86%	3.52%	1.39%	1.95%	2.30%
2008	10.86%	11.34%	2.74%	25.70%	38.60%
2009	0.75%	0.53%	1.10%	2.39%	3.60%

1.5 BETA STATISTICS

Total Quarters = 31
Losing Quarters = 2
Win Rate = 93.5%
Largest Quarter Loss (1984) = -1.5%
Largest Quarter Gain (2008) = 38.6%

Average Quarter Return = 9.7%
Market Exposure = 8%
Average Gain Per Trade = 3.2%

Annual Asset Allocation

In the fourth quarter of each year, 40% of the portfolio remains in the PIMCO Total Return Fund, while 60% of the portfolio is devoted to our three "power trades".

ALPHA/PIMCO BONDS PLUS
ANNUAL ASSET ALLOCATION

January 1 → November (-2)	**70% PIMCO Total Return Fund** **30% PIMCO Low Duration Fund**
November (-2) → December 31	**40% PIMCO Total Return Fund** **PLUS**
Power Period #1 Last Two Days of October First Two Days of November	**60% Russell 2000 Small Cap Index x 1.5**
Power Period #2 Last Six Days of November First Three Days of December	**60% Russell 2000 Small Cap Index x 1.5**
Power Period #3 Last Seven Days of December	**60% Russell 2000 Small Cap Index x 1.5**

Note: Depending on the custodian, the days between power periods may be allocated to the PIMCO Total Return Fund (60%) or a money market fund (60%).

Conventional Growth and Income Portfolio (40% Stock / 60% Bond) Market Risk = 40%
ALPHA/PIMCO Bond Plus Market Risk = 8%
Alpha Risk Reduction = 75%

We believe that the unique combination of PIMCO funds with the controlled risk exposure to equities in the fourth quarter will generate superior long-term returns to the conservative investor who requires capital growth.

The net-of-fees and expenses performance of this strategy is provided in a separate illustration.

Disclosure: Past performance is not a guarantee of future performance. The Russell 2000 is an index and cannot be used in actual investing. Index funds which replicate the index may not produce returns exactly matching the index. The data presented does not take into consideration fees, expenses or trading costs. Hypothetical or model portfolios also cannot reflect management decisions which may deviate from the methodology presented. Please see full disclosure on the model portfolio performance page.

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