



The E-System: How to Exploit the Hidden Bull Market

by Arthur J. Minton, Ph.D.

Every four years the U.S. stock market experiences a magical period that lasts for 15 months. It's the same 15-month period over and over again. Since 1931, this period has never been down on a total return basis (including dividends). The average daily gain during this extraordinary time has been 7.65 times greater than the average daily gain for all other trading days. Over the past 78 years, an investor could have owned the market during just these 15 months and received 98% of the long-term gains produced by being constantly invested. An added bonus – every multi-year bear market has occurred outside this period since 1931.

You can see why I call this six-quarter period the market's "sweet spot."

I'm going to show you how you can use this knowledge about the stock market to construct a long-term investment system that has generated profits consistently for over 40 years. Remarkably, this system has delivered returns superior to stock market returns while being invested in safe, short/intermediate bonds two-thirds of the time.

I call this strategy the "E-System".

The Presidential Election Cycle

The basic premise of the E-System is that politics profoundly affects the stock market. I would go so far as to say that politics affects the stock market more than almost any other long-term factor.

Obviously, the economy is important. But tying the direction of the stock market to the economy is questionable. The stock market is a discounting mechanism, meaning that it looks ahead six to twelve months. It is quite common for the stock market to decline ahead of bad economic conditions and to advance right through the worst of a recession. There is an old Wall Street saying that sums it up well: "A bull market climbs a wall of worry."

Trying to predict the market based on economic forecasting is notoriously difficult. The U.S. economy is not a homogeneous entity but a vast machine with millions of moving parts. It stumps the finest economists with the best academic pedigrees.

Forecasting the direction of the market by earnings estimates is also a losing game. First, earnings estimates by so-called "experts" are almost always wrong – by a wide margin. Second, the market has been known to advance strongly while corporate earnings have been dropping and equally perversely to decline while corporate earnings are rising (1973-74 bear market). In fact, earnings are more volatile than the market itself – making such short-term information worthless.

Fortunately for us, forecasting the market based on politics is much simpler and highly reliable.

The E-System begins with the presidential election cycle, a four-year period with some amazing regularities. The election cycle is defined this way:

- Year One: The post-election year (the inaugural year)
- Year Two: The mid-term year
- Year Three: The pre-election year
- Year Four: The presidential election year

The E-System is based on the premise that this cycle impacts the stock market in a predictable and consistent manner, causing regularities which the prepared investor can exploit.

Let's take a look at the Dow Jones Industrial Average since the crash of the Great Depression.

STOCK MARKET ACTION SINCE 1933 Annual % Change in Dow Jones Industrial Average					
4-Year Cycle Beginning	Elected President	Post-Election Year	Mid-Term Year	Pre-Election Year	Election Year
1933*	F. Roosevelt (D)	66.7	4.1	38.5	24.8
1937	F. Roosevelt (D)	-32.8	28.1	-2.9	-12.7
1941	F. Roosevelt (D)	-15.4	7.6	13.8	12.1
1945	F. Roosevelt (D)	26.6	-8.1	2.2	-2.1
1949*	Truman (D)	12.9	17.6	14.4	8.4
1953*	Eisenhower (R)	-3.8	44.0	20.8	2.3
1957	Eisenhower (R)	-12.8	34.0	16.4	-9.3
1961*	Kennedy (D)	18.7	-10.8	17.0	14.6
1965	Johnson (D)	10.9	-18.9	15.2	4.3
1969*	Nixon (R)	-15.2	4.8	6.1	14.6
1973	Nixon (R)	-16.6	-27.6	38.3	17.9
1977*	Carter (D)	-17.3	-3.1	4.2	14.9
1981*	Reagan (R)	-9.2	19.6	20.3	-3.7
1985	Reagan (R)	27.7	22.6	2.3	11.8
1989	G. H. W. Bush (R)	27.0	-4.3	20.3	4.2
1993*	Clinton (D)	13.7	2.1	33.5	26.0
1997	Clinton (D)	22.6	16.1	25.2	-6.2
2001*	G. W. Bush (R)	-7.1	-16.8	25.3	3.1
2005	G. W. Bush (R)	-0.6	16.3	6.4	-31.2
Total % Gain		96.0%	126.0%	325.0%	93.8%
Average % Gain		5.0%	6.7%	17.1%	4.8%
# Up		9	12	18	13
# Down		10	7	1	6

*Party in power ousted
Data from Stock Traders Almanac 2008

This chart makes it crystal clear that something important is going on in the pre-election year. The Dow has been down just once (-2.9% in 1939) and up eighteen times since 1933. In fact, the numbers are even better than they seem, since they reflect appreciation only. Add in dividends and the average pre-election year gain exceeds 20% with no losing years.

An investor owning the Dow **only** during the pre-election years would have missed every bear market since the depression. By owning a conservative bond portfolio during the other months, our hypothetical investor would have reaped the lion's share of the stock market's long-term returns without experiencing any of the confidence-shattering major declines which require years to re-coup.

Now let's dig a little deeper into the election cycle and examine the behavior of the market quarter by quarter.

The quarterly returns turn up an interesting and profitable pattern. The fourth quarter of the mid-term year is extremely strong. By combining the fourth quarter of the mid-term year with the entire pre-election year, we get a 15-month period with an average appreciation of 25.6%. I call these five quarters the market's "sweet spot".

PRESIDENTIAL ELECTION CYCLE QUARTERLY % CHANGES					
Dow Jones Industrials (1933 to 2009)					
	Q1	Q2	Q3	Q4	Year
Post-Election	-0.4%	4.7%	-0.6%	1.3%	5.0%
Mid-Term	0.4%	0.9%	-1.4%	7.2%	6.7%
Pre-Election	5.8%	5.5%	3.3%	1.6%	17.1%
Election	0.6%	0.8%	1.1%	2.2%	4.8%

As good as these numbers look, there are two more factors which make them even better. First, the returns do not include dividends, which averaged 4% throughout most of this time period. The only losing period for the Dow during the sweet spot was 1978-79. When a 4.5% dividend is added in, this loss is erased. In addition, the average return jumps to nearly 30% since 1933 by factoring in dividends. Second, as you will see later, the Dow is not the best investment vehicle to implement this strategy. During the 1978-79 "sweet spot" the S&P 500 was up 12.8% (with dividends).

In a moment we'll look at ways to super-charge this amazing market regularity. But first, let's ask the obvious question, "Why does this happen?"

My explanation is extremely simple. Incumbent politicians have one over-riding objective: to get re-elected. Politicians are not stupid. They know that American voters, no matter how high-minded they profess to be, vote with the pocketbook first. The easiest way for the majority party to get turned out of office is to preside over a declining economy or what is perceived to be a declining economy. Therefore, in the pre-election and election years, politicians pull out all the stops to insure economic prosperity during the presidential election. These are the years when taxes are cut, when the pork barrel comes rolling out, when business-friendly legislation is introduced. In the famous words of President Bill Clinton, a master politician, "It's the economy, stupid!" As I mentioned earlier, the market is a discounting mechanism which looks six to twelve months into the future. Therefore, the market anticipates the election year hoopla.

What about the fourth quarter of the mid-term year? Why is this quarter so powerful?

Dow Appreciation During the 15-Month Favorable Period of the Election Cycle*				
Start Date	Start Year	End Date	End Year	Percentage +/-
Sept. 30	1934	Dec. 31	1935	55.6
Sept. 30	1938	Dec. 31	1939	6.2
Sept. 30	1942	Dec. 31	1943	24.5
Sept. 30	1946	Dec. 31	1947	5.1
Sept. 30	1950	Dec. 31	1951	18.9
Sept. 30	1954	Dec. 31	1955	35.5
Sept. 30	1958	Dec. 31	1959	27.7
Sept. 30	1962	Dec. 31	1963	31.8
Sept. 30	1966	Dec. 31	1967	16.9
Sept. 30	1970	Dec. 31	1971	17.0
Sept. 30	1974	Dec. 31	1975	40.2
Sept. 30	1978	Dec. 31	1979	(3.1)
Sept. 30	1982	Dec. 31	1983	40.4
Sept. 30	1986	Dec. 31	1987	9.7
Sept. 30	1990	Dec. 31	1991	29.1
Sept. 30	1994	Dec. 31	1995	33.1
Sept. 30	1998	Dec. 31	1999	46.6
Sept. 30	2002	Dec. 31	2003	37.7
Sept. 30	2006	Dec. 31	2007	13.6
Average				25.6

*Dividends not included.
Source: Jay Kaeppel, *Seasonal Stock Market Trends*, Wiley, 2008

The mid-term year has historically been a year of uncertainty. In recent times, it is the only year with a negative bias. In fact, as you can see from the table, since 1963 an investor could have avoided years one and two without seriously damaging long-term returns. This is not to say that these years can't be very profitable. From the mid-80's to 2000, during the greatest bull market in 100 years, years one and two of the election cycle produced solid gains through four complete cycles. The historical lesson seems to be that unless you're in a major, long-term bull market, the post-election and mid-term years are prone to losses. Indeed, most of the major bear markets since 1933 have been contained in these two years.

Average Appreciation by Election Cycle Year 1963 - 2009*				
Year	DJIA	% Up	S&P 500	% Up
1	3.30%	52%	3.70%	50%
2	1.00%	55%	-0.30%	55%
3	17.89%	100%	18.63%	100%
4	5.60%	75%	6.70%	83%

*appreciation only

The reason, once again, is politics.

The post-election year is the year of grand plans and the mid-term year is the year of dirty work. The party controlling the White House puts forth its new plan for the U.S. economy and new programs to mend the social fabric of the country. In general, the market hates these big ideas because sooner or later someone has to pay for them and this normally involves higher taxes and more restrictive legislation on business. The dirty work gets done early in the four-year cycle in the hopes that the electorate will forget about it two years later.

The second and third quarters of the mid-term year have historically been extremely dangerous. Since 1902, the Dow has lost over 4000 points in these two quarters alone. The third quarter is particularly negative, having lost about 3500 Dow points all on its own. Then comes the fourth quarter, which has gained over 2800 Dow points since 1902. It is the second-best quarter historically, exceeded only by the second quarter of the pre-election year which has added over 4000 Dow points in the same period.

Once again, my theory is that the market begins to anticipate the pre-election and election years late in the mid-term year. In addition, the drubbing that stocks take in the second and third quarters of the mid-term year sets up a bullish phase as more knowledgeable investors scoop up the bargains caused by the general panic. This is also when the Federal Reserve responds to the economic malaise and starts cutting interest rates. Important market bottoms tend to occur in the mid-term year: 1960, 1968, 1974, 1978, 1982, 1990, 1994, 1998, and 2002 are recent examples.

Our discussion so far has established that the stock market has a 15-month “sweet spot” stretching from the fourth quarter of year two in the election cycle to the end of year three. Now let’s take a closer look at this period and how we can enhance the returns it provides.

The Equity Strategy

So far I have concentrated on the Dow Jones Industrial Average. This index has the longest history and is well known to every investor. But the Dow is not necessarily the best investment vehicle for this strategy. The data, especially since World War II, is better using other well-known stock indexes.

While the Dow Industrials is made up of just 30 stocks, the S&P 500, as its name suggests, contains 500 U.S. stocks weighted by market capitalization. There are dozens of inexpensive index funds and/or EFT’s which replicate the S&P 500 index. Since World War II, “sweet spot” returns for the S&P 500 have been slightly better than the Dow.

The real workhorse during the market’s “sweet spot” is the NASDAQ index. This index represents all the stocks that are not listed on the New York or American Stock Exchanges. It is heavily weighted toward technology stocks. The NASDAQ index was created in 1961.

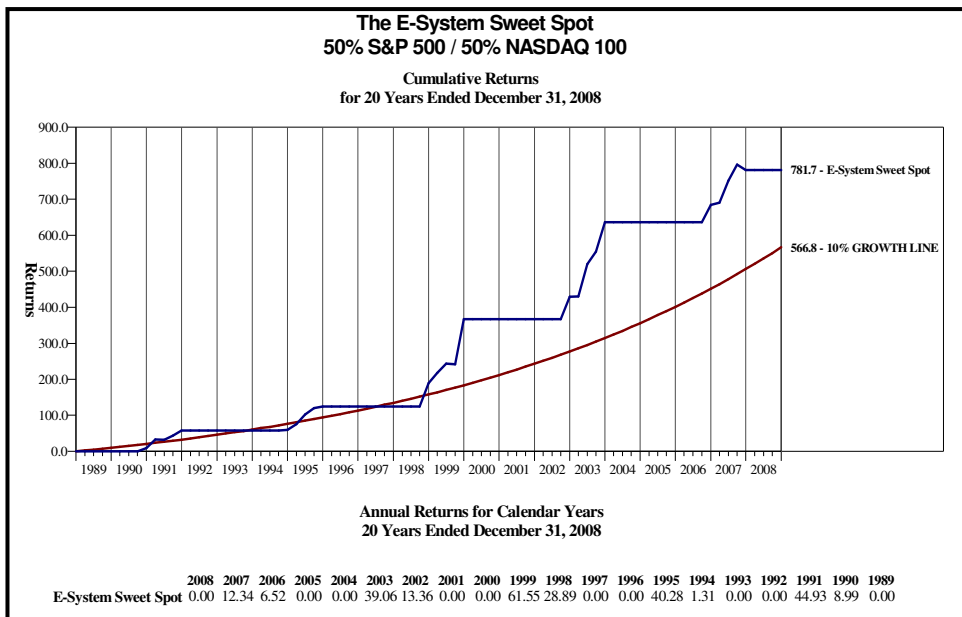
"SWEET SPOT" STRATEGY			
5 QUARTERS: YEAR 2, Q4; YEAR 3, ALL			
S&P 500, with dividends reinvested			
1953 - 2008			
1954 Q4: 11.4%	1970 Q4: 9.4%	1986 Q4: 5.6%	2002 Q4: 8.4%
1955 All: 26.4%	1971 All: 10.8%	1987 All: 5.2%	2003 All: 28.7%
TOTAL: 40.8%	TOTAL: 21.2%	TOTAL: 11.1%	TOTAL: 39.5%
1958 Q4: 10.3%	1974 Q4: 9.4%	1990 Q4: 9.0%	2006 Q4: 6.7%
1959 All: 8.5%	1975 All: 37.2%	1991 All: 30.5%	2007 All: 5.5%
TOTAL: 19.7%	TOTAL: 50.1%	TOTAL: 42.2%	TOTAL: 12.6%
1962 Q4: 12.1%	1978 Q4: -4.9%	1994 Q4: 0.0%	
1963 All: 18.9%	1979 All: 18.6%	1995 All: 37.6%	
Total: 33.3%	TOTAL: 12.8%	TOTAL: 37.6%	
1966 Q4: 4.9%	1982 Q4: 18.2%	1998 Q4: 21.3%	
1967 All: 20.1%	1983 All: 22.6%	1999 All: 21.0%	
TOTAL: 26.0%	TOTAL: 44.9%	TOTAL: 46.8%	
\$1,000,000 invested grows to \$42,192,000			
Total Time Invested:		17.5 Yrs	
Compound Annual Return:		24%	
Down Years:		0	

The returns from NASDAQ during the “sweet spot” have been nothing short of phenomenal. A hypothetical investor following the strategy would have suffered through one down period in 1987, which was pretty scary since the market dropped almost 40% in two months from the end of August through October. Again in 1978, the strategy started off with an 11% loss – which would have raised some serious doubts about its viability. But, just like the S&P 500, NASDAQ’s winning record during the “sweet spot” has been remarkably consistent and enormously profitable. The average “sweet spot” return for NASDAQ since its inception has been about 38%, which has translated into a compound annual return of about 32%. At that rate, money doubles every 2.5 years.

"SWEET SPOT" STRATEGY			
5 QUARTERS: YEAR 2, Q4; YEAR 3, ALL			
NASDAQ, No Dividends			
1961 - 2008			
1962 Q4: 2.4%	1974 Q4: 7.5%	1986 Q4: -0.6%	1998 Q4: 29.5%
1963 All: 23.1%	1975 All: 29.8%	1987 All: -5.3%	1999 All: 86.0%
TOTAL: 26.0%	Total: 39.5%	TOTAL: -5.9%	TOTAL: 140.8%
1966 Q4: 8.7%	1978 Q4: -11.2%	1990 Q4: 8.5%	2002 Q4: 13.9%
1967 All: 54.5%	1979 All: 28.1%	1991 All: 56.8%	2003 All: 50.2%
TOTAL: 67.9%	TOTAL: 13.7%	TOTAL: 70.1%	TOTAL: 71.1%
1970 Q4: 7.5%	1982 Q4: 23.9%	1994 Q4: -1.6%	2006 Q4: 7.2%
1971 All: 27.7%	1983 All: 19.9%	1995 All: 40.1%	2007 All: 9.9%
TOTAL: 37.2%	TOTAL: 48.5%	TOTAL: 37.8%	TOTAL: 17.8%
\$1,000,000 invested grows to \$73,186,657			
Total Time Invested:		15 Years	
Compound Annual Return:		32%	
Down Years:		1	

While there is no way to trade the NASDAQ index, there are many index funds and EFT’s replicating the NASDAQ 100, which is a weighted index of the 100 largest companies traded on NASDAQ. The returns of this index are very close to the returns of the overall index.

By combining the S&P 500 with the NASDAQ 100, we can cover large and medium sized industrial companies, most major sectors, and have a big boost to returns from technology stocks. The following chart summarizes the results of a 50/50 commitment to each index over the past 20 years during the five “sweet spots”.



The five sweet spots alone, without interest earned in the intervening months, returned 11.5% annually over the 20-year period. The Dow Industrials averaged a return of 9.9% over the same period. The average sweet spot return was 57.1%. The bottom line: this simple strategy beat the market over a 20-year period while being invested in stocks just one-third of the time. Moreover, the 20-year period included one of the greatest bull market decades of all time – the 1990’s.

Outside the Sweet Spot – What to do?

The beauty of the E-System is that we avoid the risk of the stock market most of the time. We take market exposure only during the 15-month period when the probability of gain is the highest, then duck out and play it safe the rest of the time. But how do we play it safe intelligently?

One option is to invest in CD’s or money market funds during our 27-month safe period. This strategy insures that we continue to make gains, but the gains tend to be unsatisfying. The problem with CD’s and money market funds is that the returns are so low (or even non-existent) after factoring in inflation and taxes. Remember, the E-System is an investment strategy and that means the intelligent management of risk, not the elimination of risk (which also eliminates most returns).

That leaves us with bonds.

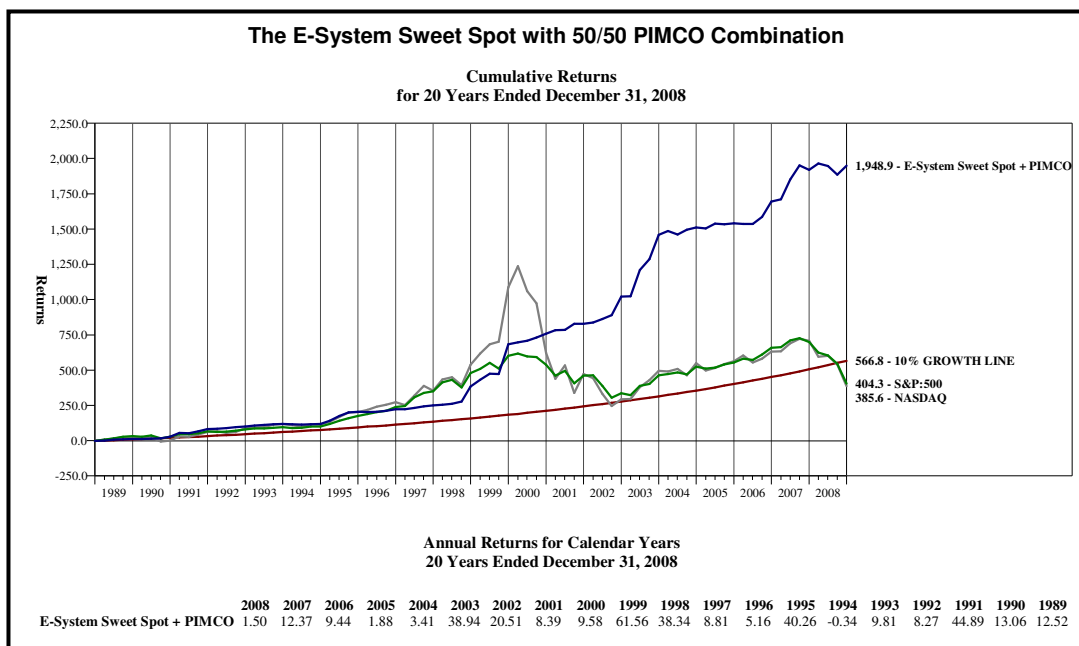
Here’s the problem, however. For the past 25 years bonds have been in an historic bull market. From a high in 1982, interest rates and inflation have fallen steadily, causing bonds to appreciate, therefore delivering above-average returns. Today’s rates are at a historic low and the returns of the past 10 or 20 years are unlikely to be repeated over the next decade.

Fortunately, no matter what happens, interest rates will go through cycles. If the next 20 years sees higher inflation and rising rates, it will happen in fits and starts. This saw-tooth pattern creates opportunity for a skilled bond manager.

My solution to the quest for safe returns during the periods between market sweet spots is to hire the best active fixed-income manager we can find. By “active fixed-income manager”, I mean someone who can actively work the trend in interest rates – staying conservative when rates are rising, becoming more aggressive when rates are falling.

In my opinion, the best active bond manager is Bill Gross, the president of PIMCO – the largest fixed-income management company in the world. Gross is an investment legend who has won the Morningstar Fixed-Income Manager of the Year Award three times in the past ten years. He manages two funds that fit the bill for our purposes. One is the Low Duration Fund, a fund that invests in short maturity, mostly U.S. Treasury bonds. The other is the Total Return Fund, which gives Gross a free hand to invest in the most compelling sectors of

the market. This fund normally keeps maturities within a range of 2-8 years. A 50/50 combination of these two funds should provide good returns in the future.



Nothing to complain about here. Using the PIMCO funds as our fixed-income vehicle during the 33 months between sweet spots brings our annual return to 16.3%, gross of fees and expenses.

The Final Touch

We now have a working system which has delivered market-beating long-term returns while invested in bonds two-thirds of the time. We could stop here and have an investment method which has out-performed 99% of the professional money managers in the world.

However, since we are dealing with high-probability events, there is another phenomenon which can add to our returns with very low risk.

The stock market loves holidays, particularly Thanksgiving and Christmas. The period comprising the months of November and December is historically the best two months of the year. Most of the annual gains in the market come during this period.

There are two very predictable sub-periods which occur at year-end. The first is the period just before Thanksgiving through the first three trading days of December. The second is the last seven days of December, which includes two days before Christmas.

In late December the market is bullish for several reasons. The year-end causes professional portfolio managers to undertake “window dressing”, i.e. using spare cash to bolster stock holdings, particularly stocks that have been doing well. In addition, profit sharing plans are making annual contributions. Also, tax loss selling is mostly over for the year, so a source of supply is removed from the market. Finally, there is simply the spirit of the holidays which seems to create the feeling of optimism. As a result, the last seven days of December are particularly potent and consistently up. This is especially true for small-cap stocks. Here is what happened to the Russell 2000 small-cap index during this period since 1979, the inception of the index.

I have selected the Russell 2000 index because small-cap stocks are particularly sensitive to this seasonal affect. Starting in late November, investors tend to assume more risk – looking forward to a rising market in the fourth quarter and January. This is called the “January effect” and is well documented historically. As you can see, the index produces an average gain of about 2.5% during this seven-day period. If the market behaved this way all year long it would average about 150% per year.

The other reliable holiday period occurs from just before Thanksgiving through the third trading day of December. This period, of nine days, has been almost as productive as late-December.

Russell 2000 Last Seven Days of December					
1979	1.85%	1990	1.24%	2001	1.37%
1980	2.16%	1991	7.56%	2002	-0.06%
1981	0.12%	1992	2.79%	2003	1.85%
1982	2.30%	1993	3.19%	2004	0.84%
1983	1.36%	1994	3.99%	2005	0.09%
1984	0.79%	1995	3.22%	2006	0.73%
1985	1.58%	1996	1.82%	2007	1.39%
1986	-1.38%	1997	3.99%	2008	5.13%
1987	0.49%	1998	4.93%		
1988	1.98%	1999	5.95%	Average:	2.51%
1989	3.33%	2000	5.48%	% Win:	93%

Russell 2000 Last 6 Days of November and First Three Days of December					
1979	6.05%	1990	5.26%	2001	5.93%
1980	0.12%	1991	-0.17%	2002	0.58%
1981	2.18%	1992	2.89%	2003	3.72%
1982	2.64%	1993	1.16%	2004	4.61%
1983	0.73%	1994	-1.55%	2005	1.15%
1984	-2.26%	1995	3.92%	2006	0.72%
1985	3.27%	1996	3.01%	2007	3.52%
1986	3.00%	1997	0.75%	2008	11.34%
1987	-5.20%	1998	0.18%		
1988	2.48%	1999	0.75%	Average:	2.16%
1989	1.08%	2000	1.20%	% Win:	87%

So here we have two trades occurring at year-end that together average almost 5%.

Of course half of these trades occur during the market's sweet spot (Q4 of year 2 and Q4 of year 3), so they cannot be exploited because the E-System is already fully invested in the S&P 500 and the NASDAQ 100. But the remaining periods (Q4 of year 1 and Q4 of year 4) are available. If you examine those periods, you will see that these two holiday trades have been up 100% of the time, averaging an 8.2% return since 1989. 2008 was particularly powerful, with these two trades totaling 17.1%.

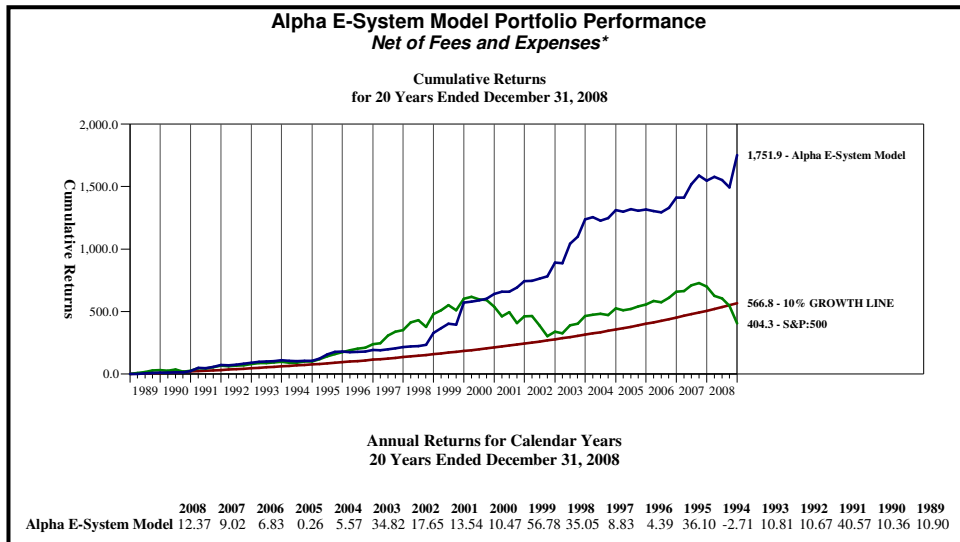
These low-risk, high-return holiday periods provide us with a simple tool to boost returns in the fourth quarters which fall outside of the market's sweet spot. This chart shows what the quarterly investment allocation looks like.

E-System Quarterly Allocation				
Year	Q1	Q2	Q3	Q4
Post-Election Year	Bonds	Bonds	Bonds	2 Holiday Trades
Mid-Term Year	Bonds	Bonds	Bonds	Stocks
Pre-Election Year	Stocks	Stocks	Stocks	Stocks
Election Year	Bonds	Bonds	Bonds	2 Holiday Trades

Bonds = 50% PIMCO Low Duration / 50% PIMCO Total Return
Stocks = 50% S&P 500 / 50% NASDAQ 100 Index Funds
2 Holiday Trades = 1) Last six days of November through third trading day of December
2) Last seven days of December
3) Money market funds balance of time

In its final form then, the E-System Model Portfolio has three components:

1. During the 15-month "sweet spot" each four years, invest in the stock market: the portfolio is 50% S&P 500, 50% NASDAQ 100 index funds.
2. During the fourth quarters of the post-election and election years, invest in two "holiday trades" comprising 16 days using a Russell 2000 index fund, remaining in money market funds the balance of the quarter.
3. During the first three quarters of the post-election, mid-term, and election years, invest in bonds (which are represented in the graph below by a combination of PIMCO funds).



The result:

1. Positive returns for 19 of the past 20 years (1989 – 2008).
2. A \$1,000,000 portfolio grows to \$18,500,000.
3. An annual return of 15.7%, net of fees and expenses (see below for details), bettering the return of the S&P 500 by 60% per year.

For the income investor, the results include the ability to extract a steadily growing stream of income which has easily outpaced the rate of inflation and the effects of taxation. This is absolutely critical to maintaining or even improving ones lifestyle in retirement.

Closing Thoughts

Everything about the E-System has been disclosed. You can do it yourself. I wouldn't recommend it though.

It's difficult to be a long-term investor following a disciplined investment strategy, no matter how strong the evidence for the system. Every good investment method will confront cloudy periods when it looks like it's beginning to fail, or when other alternatives seem better. To stay on the path is absolutely crucial at those times. A partnership with Alpha Investment Management will help create the confidence you need to stay on course through the twists and turns in the investment world of the future.

Disclosure: The performance data presented above is hypothetical and there can be no guarantee that returns in the future will be equivalent. Past performance is not a guarantee of future performance. The E-System Portfolio strategy uses a precise asset allocation formula that utilizes the S&P 500 index, the NASDAQ 100 index, and the Russell 2000 index, and a combination of two PIMCO fixed-income funds.

The S&P 500, the NASDAQ 100 and the Russell 2000 are indexes which cannot be used in actual investing. Alpha accounts use index funds that replicate the S&P 500, the NASDAQ 100 and the Russell 2000 but which may vary from the index returns. The data presented above contains returns from PIMCO funds during periods when the model is invested in fixed-income. During these periods, the portfolio is equally allocated between the PIMCO Low Duration Fund and the PIMCO Total Return Fund. The returns for the fixed-income component are net of PIMCO's fees and expenses.

*The data presented above represent a reduction in gross returns of .75% per quarter or 3% annually when the model is invested in equities. This reduction in returns reflects Alpha's maximum fee of 2% annually (as stated in our Form ADV Part II) and a 1% annual reduction which reflects the internal costs of the funds used to implement the strategy. During periods of fixed-income investment, the gross returns are reduced by .55% per quarter, reflecting Alpha's maximum quarterly fee of .50% and .5% allocated to other expenses. The data does not include interest/dividends from money market funds in the fourth quarter of each year. The data does include interest and dividends attributed to each index. The period portrayed in the above illustration consists of ten years of rising market returns (1989-1998) and ten years of mixed and declining market returns (1998-2009).

This strategy may be executed using variable annuity company products which may increase the total expense factor. In some cases, the expense factor will remain unaffected due to lower management fees from Alpha. These expense factors cannot be quantified in advance. Potential investors should inquire as to the exact additional costs of these investment venues.

Model results, being hypothetical, have inherent limitations due to the fact that they do not reflect actual trading and may not reflect the impact that material economic and market factors might have had on the advisor's decision-making if actual client funds had been invested in the model strategy. No matter how positive the model returns have been over any time period, the potential for loss is always present due to factors in the future which may not be accounted for in the model.

