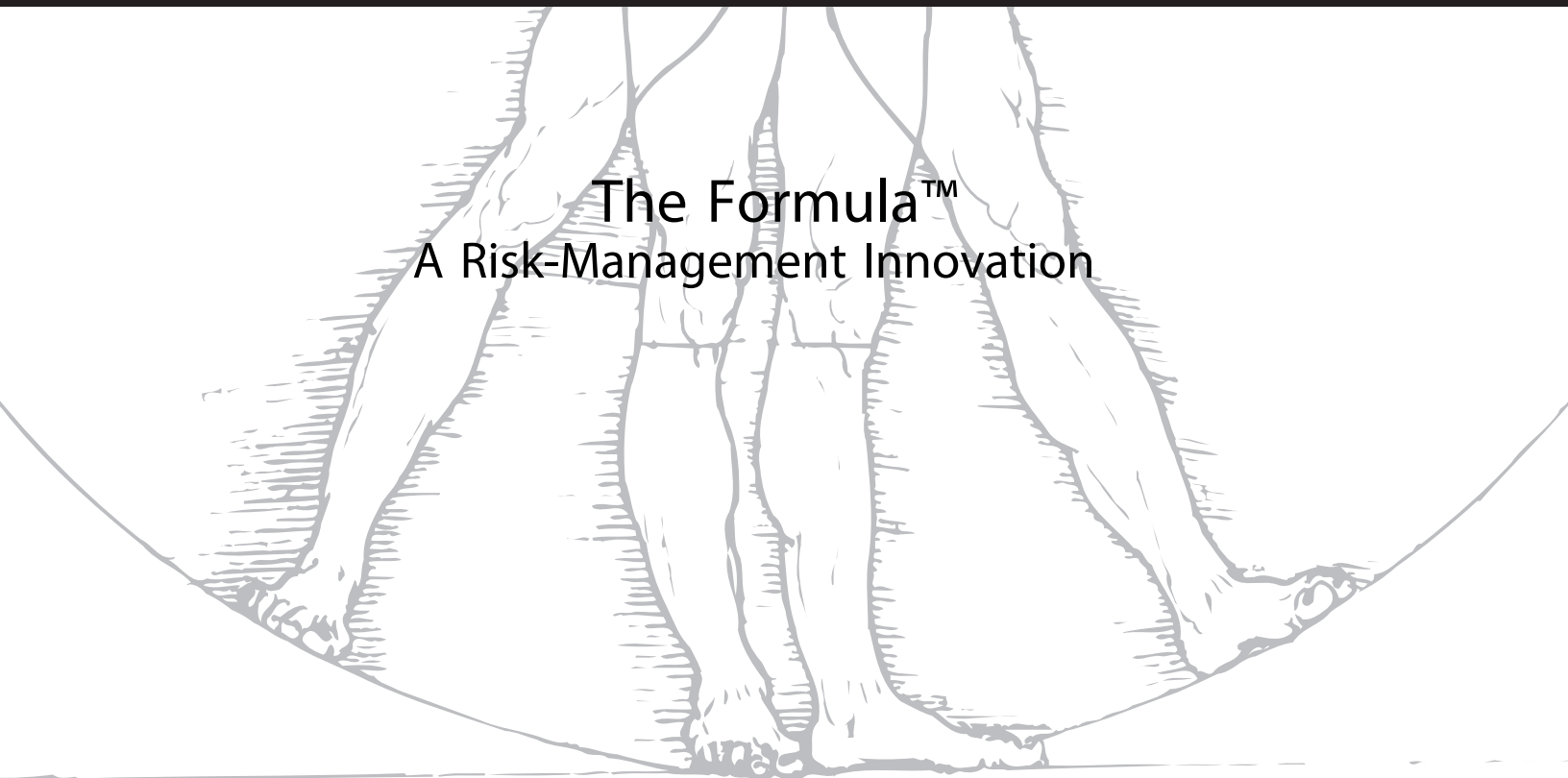


alpha

INVESTMENT MANAGEMENT

The Formula™
A Risk-Management Innovation



Overview

The Formula™ is a strategy designed for investors seeking a long-term, systematic approach to risk management of equity capital. The primary objective of this strategy is to avoid large losses. The Formula™ seeks to accomplish this by restricting investment in the stock market to well-defined time periods when the odds of positive returns are significantly higher than average. These time periods are called “power zones”.

The Formula™ uses index funds and other mutual funds as investment vehicles.

The Formula's™ long-term effectiveness as an investment strategy hinges on the assumption that the stock market exhibits cyclical regularities which “skew” the distribution of returns into clearly identifiable time-periods which can be exploited for profit.

Alpha's research has identified two cyclical forces which profoundly and regularly affect the distribution of stock market returns. They are:

- 1) The annual earnings forecasting cycle
- 2) The four-year presidential election cycle

These cycles produce well-defined time periods when the market climate is positive; in other words, when the odds of a rising market are significantly higher than average. They also produce clearly identifiable time periods when the market climate is risky and the odds of a market decline increase substantially.

These market effects are, of course, the result of changes in investor psychology which are produced by the specific characteristics of each cyclical force.

Force One: The Annual Earnings Forecasting Cycle

Investors are constantly seeking ways to reduce uncertainty. This desire has created a world-wide industry which attempts to satisfy the demand for insight into the future. The investment forecasting industry is highly paid for its “expertise” in predicting the probable course of the economy, the stock market, and the earnings of specific companies.

Investors, like most human beings, believe in “experts”. It seems rational to believe that intelligent, dedicated, experienced, and well-paid professionals should be able to get a handle on what is likely to happen over the next 12-18 months. This expectation, however, flies in the face of the facts: expert opinion is wildly overrated.

A significant body of research exists which shows that expert forecasts of earnings tend to be substantially off the mark, with a strong bias toward overly optimistic estimates. This optimistic bias creates the annual forecasting cycle.

Toward the end of the calendar year, the forecasting industry puts out its predictions for the upcoming year. These predictions tend to be overly optimistic. Early in the year, analysts routinely increase their earnings estimates and continue to defend them until about mid-year. By late-June the first two quarters' earnings are “in” and a more realistic appraisal of full-year earnings is called for. At this point, earnings estimates for the year begin to be revised downward. This process typically continues to year-end.

This cycle causes the annual returns of the stock market to be “skewed”. The returns of the market between late-October to early-May tend to be significantly higher than returns from June to late-October. This is caused by investors influenced by expert confidence during the first half of the forecasting cycle. As expert confidence falls and earnings are revised downward, this translates into investor concern and a desire to re-organize portfolios. This is especially true for institutional investors who are strongly influenced by calendar-year comparisons to investment benchmarks. This explains why the bulk of bear market damage and large market corrections occur between June and November.

This explanation is backed up by the long-term statistics over a 66-year period from 1950 through December 2015, using the Dow Industrials as a benchmark:

- The Dow gained 17,992.80 points during the six-month “power zone” (November through April).
- The Dow lost 433.49 points during the six-month “dead zone” (May through October).
- The Dow was down only 21% of the time between November and May.
- A \$10,000 investment only during the November to May “power zone” grew to \$853,577.
- A \$10,000 investment only during the May to November “dead zone” shrank to \$9,681.

Source: Stock Trader's Almanac 2017, Wiley

The Formula™ exploits this annual “skewing” effect using mid-cap stocks. Our benchmark is the S&P MidCap 400 Index. Our research indicates that the mid-cap index is the best performing U.S. equity index, having a 30% excess annual return premium to the S&P 500. In addition, the mid-cap index has an annual power zone of seven months, from late-October to late-May, which increases returns due to the additional low-risk month.

The Annual Forecasting Cycle						
S&P MidCap 400 Index						
1981 - 2017						
YEAR	S&P MIDCAP 400		YEAR	S&P MIDCAP 400		
	% CHANGE JUNE 1 - OCT 31	INVESTING \$ 1,000		% CHANGE NOV 1 - MAY 31	INVESTING \$ 1,000	
1981	-3.8%	\$ 962	1981-82	-2.3%	\$ 977	
1982	18.3%	\$ 1,138	1982-83	35.5%	\$ 1,324	
1983	-0.9%	\$ 1,128	1983-84	-9.3%	\$ 1,201	
1984	10.5%	\$ 1,246	1984-85	20.5%	\$ 1,447	
1985	4.1%	\$ 1,297	1985-86	33.6%	\$ 1,933	
1986	-1.2%	\$ 1,281	1986-87	13.6%	\$ 2,196	
1987	-17.3%	\$ 1,059	1987-88	13.9%	\$ 2,501	
1988	6.5%	\$ 1,128	1988-89	23.5%	\$ 3,089	
1989	5.8%	\$ 1,193	1989-90	8.2%	\$ 3,342	
1990	-20.0%	\$ 954	1990-91	49.1%	\$ 4,983	
1991	8.0%	\$ 1,030	1991-92	7.2%	\$ 5,342	
1992	3.3%	\$ 1,064	1992-93	14.8%	\$ 6,133	
1993	5.9%	\$ 1,127	1993-94	-1.8%	\$ 6,023	
1994	4.2%	\$ 1,174	1994-95	8.9%	\$ 6,559	
1995	11.3%	\$ 1,307	1995-96	15.4%	\$ 7,569	
1996	1.7%	\$ 1,329	1996-97	16.2%	\$ 8,795	
1997	14.2%	\$ 1,518	1997-98	13.8%	\$ 10,009	
1998	-6.2%	\$ 1,424	1998-99	19.4%	\$ 11,951	
1999	1.4%	\$ 1,444	1999-00	19.7%	\$ 14,305	
2000	9.9%	\$ 1,587	2000-01	0.9%	\$ 14,434	
2001	-13.2%	\$ 1,378	2001-02	18.0%	\$ 17,032	
2002	-19.3%	\$ 1,112	2002-03	12.6%	\$ 19,178	
2003	16.1%	\$ 1,291	2003-04	9.1%	\$ 20,923	
2004	1.7%	\$ 1,313	2004-05	12.0%	\$ 23,434	
2005	5.0%	\$ 1,379	2005-06	10.1%	\$ 25,801	
2006	3.1%	\$ 1,422	2006-07	17.6%	\$ 30,342	
2007	-0.5%	\$ 1,415	2007-08	-2.0%	\$ 29,735	
2008	-35.2%	\$ 917	2008-09	2.5%	\$ 30,478	
2009	15.3%	\$ 1,057	2009-10	16.7%	\$ 35,568	
2010	9.4%	\$ 1,156	2010-11	21.6%	\$ 43,251	
2011	-10.7%	\$ 1,032	2011-12	5.2%	\$ 45,500	
2012	6.6%	\$ 1,100	2012-13	21.9%	\$ 55,465	
2013	9.5%	\$ 1,205	2013-14	7.8%	\$ 59,791	
2014	3.6%	\$ 1,248	2014-15	8.4%	\$ 64,813	
2015	-4.6%	\$ 1,191	2015-16	4.4%	\$ 67,665	
2016	1.8%	\$ 1,212	2016-17	15.1%	\$ 77,882	
Losing Periods		12	Losing Periods		4	
Winning Periods		24	Winning Periods		32	
36 Yr Gain / (Loss)		\$ 212	36 Yr Gain / (Loss)		\$ 76,882	
Compound Annual Return		0.5%	Compound Annual Return		12.9%	

Note: **The returns illustrated above are not returns of any Alpha strategy** and do not include management fees or the cost of funds, trading, or other expenses. The illustration is designed to quantify the effect of certain time periods on the S&P MidCap 400 Index. Dividends included. Data Source: Callan Associates PEP Database

Force Two: The Four-Year Presidential Election Cycle

The presidential election cycle causes a cyclical bias which has been operating in the U.S. market since the formation of the Federal Reserve in 1913. Specifically, the election cycle tends to skew returns into a 15-month period beginning with the mid-term elections.

PRESIDENTIAL ELECTION CYCLE QUARTERLY % CHANGES					
Dow Jones Industrials (1933 to 2015)					
	Q1	Q2	Q3	Q4	Year
Post-Election	-0.4%	1.3%	0.4%	1.8%	3.1%
Mid-Term	0.0%	0.4%	-0.6%	7.4%	7.2%
Pre-Election	5.6%	5.1%	2.0%	2.4%	15.9%
Election	1.0%	0.6%	0.9%	2.1%	4.7%

The five-quarter period beginning in the fourth quarter of the president's second year has only been down once since 1931, generating an average return of 23.9% plus dividends (Dow Industrials, ending 2015). This 15-month period accounts for almost all of the total appreciation of the market since the Great Depression. The average daily return during this period is 6.1 times greater than the average daily return during all other months. We call this period the election cycle "power zone".

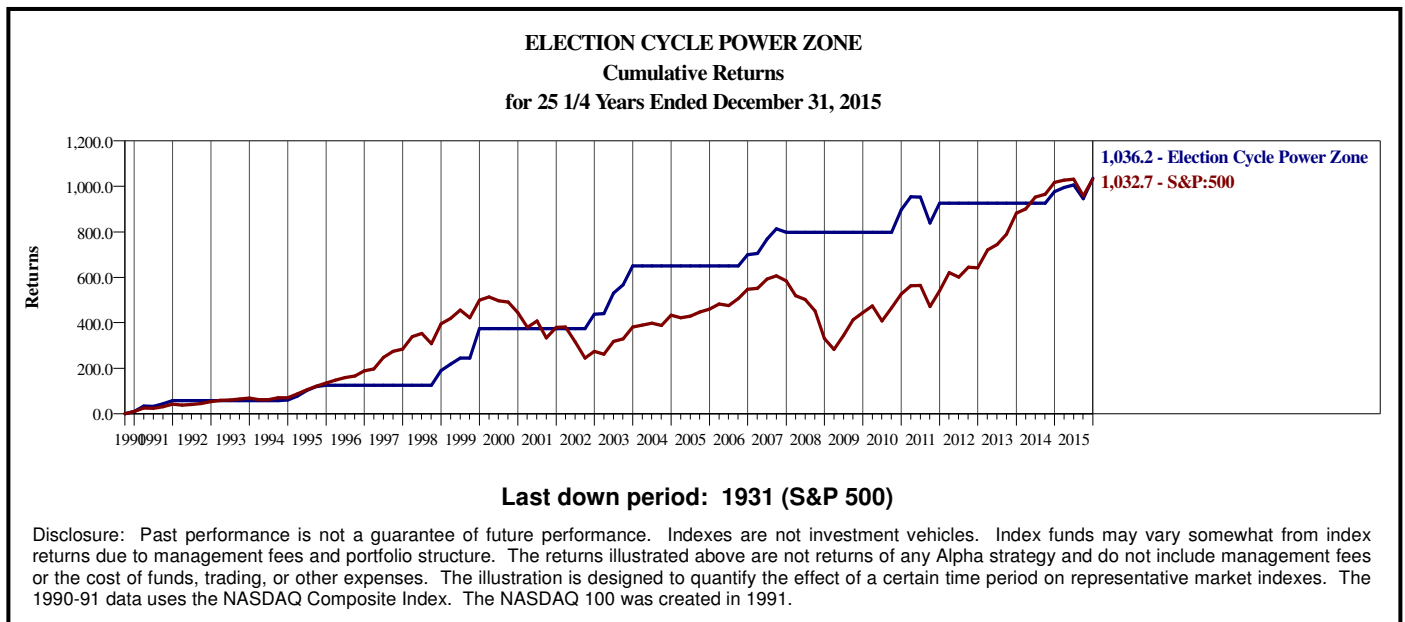
The mid-term elections cause the political class to focus on the next presidential election. This shift in focus is dramatic. In the first two years of the presidential term the dominant party attempts to pass legislation with significant social importance and increased governmental activism. Such changes are generally resisted by investors, who tend to be cautious during periods of uncertainty. After the mid-term elections, however, the political class becomes less aggressive and more fiscally conservative.

During this period there is no mention of higher taxes, increased regulation on businesses, or large legislative agendas. The dominant party knows that economics will play a large part in determining the presidential election and they pull out all the stops to make the U.S. economy vibrant during the election year. Naturally, this plays well on Wall Street.

The Formula™ adopts a fully invested position in the market during the 15-month election cycle "power zone". The strategy invests equally in the S&P 500 and the NASDAQ 100. The NASDAQ 100 represents the largest companies in the NASDAQ Composite Index. It is heavily tilted toward technology companies, such as Microsoft and Intel. Large growth companies tend to do very well during this optimistic period in the election cycle. A look at the last seven cycles confirms this.

1990 – 2015 Election Cycle Power Zone	
Q4 Mid-Term Year, Q1-Q4 Pre-Election Year	
50% S&P 500 / 50% NASDAQ 100 Cumulative Returns	
Q4 1990 – Q4 1991	57.95%
Q4 1994 – Q4 1995	42.19%
Q4 1998 – Q4 1999	111.20%
Q4 2002 – Q4 2003	58.17%
Q4 2006 – Q4 2007	19.69%
Q4 2010 – Q4 2011	14.24%
Q4 2014 – Q4 2015	10.76%
Average:	44.89%
Cumulative Gain Election Cycle Power Zone:	1036.23% (as of 12/31/2015)
Cumulative Gain S&P 500 (Buy & Hold):	1032.72% (as of 12/31/2015)

Large growth companies tend to do very well during this optimistic period in the election cycle. A look at the last seven cycles confirms this.



Bonds

The Formula™ invests in bonds when not invested in equities. Bond exposure covers 14 months every election cycle; during the five-month annual “dead zone” in years one and four, and the four-month “dead zone” in year two.

Fixed-income exposure is limited to an intermediate-term bond fund.

The objective of this component is to earn monthly returns in excess of money market returns with relatively low risk.

Asset Allocation Schedule

The Formula™			
Asset Allocation Schedule			
Based on the Four-Year Election Cycle			
Year 1 (Post-Election)	JANUARY 1 → MAY 31 S&P MidCap 400	JUNE 1 → OCTOBER 31 100% Intermediate Bond Fund	NOVEMBER 1 → DECEMBER 31 S&P MidCap 400
Year 2 (Mid-Term)	JANUARY 1 → MAY 31 S&P MidCap 400	JUNE 1 → SEPTEMBER 30 100% Intermediate Bond Fund	OCTOBER 1 → DECEMBER 31 50% S&P 500 / 50% NASDAQ 100
Year 3 (Pre-Election)	JANUARY 1 → DECEMBER 31 50% S&P 500 / 50% NASDAQ 100		
Year 4 (Election)	JANUARY 1 → MAY 31 S&P MidCap 400	JUNE 1 → OCTOBER 31 100% Intermediate Bond Fund	NOVEMBER 1 → DECEMBER 31 S&P MidCap 400

Summary

In the end, The Formula™ can be seen as a simple strategy for managing equity capital efficiently over time. Market risk is assumed only during periods when a positive market climate is expected. This expectation is based upon two forces which are well-defined and which reflect causal mechanisms at work on investor psychology. Decades of supporting return data provide empirical evidence for their influence on market returns.

The Formula™ has historically exhibited lower risk with higher returns over longer time periods than equity indexes alone. The Formula™ represents a good alternative to mutual funds and managed accounts which assume a constant exposure to market risk. Buy and hold strategies, even when actively managed, remain exposed to unpredictable market risk during the market’s “dead zone” which decades of return data have shown to be unproductive over the long-term and likely to suffer the most during bear markets.

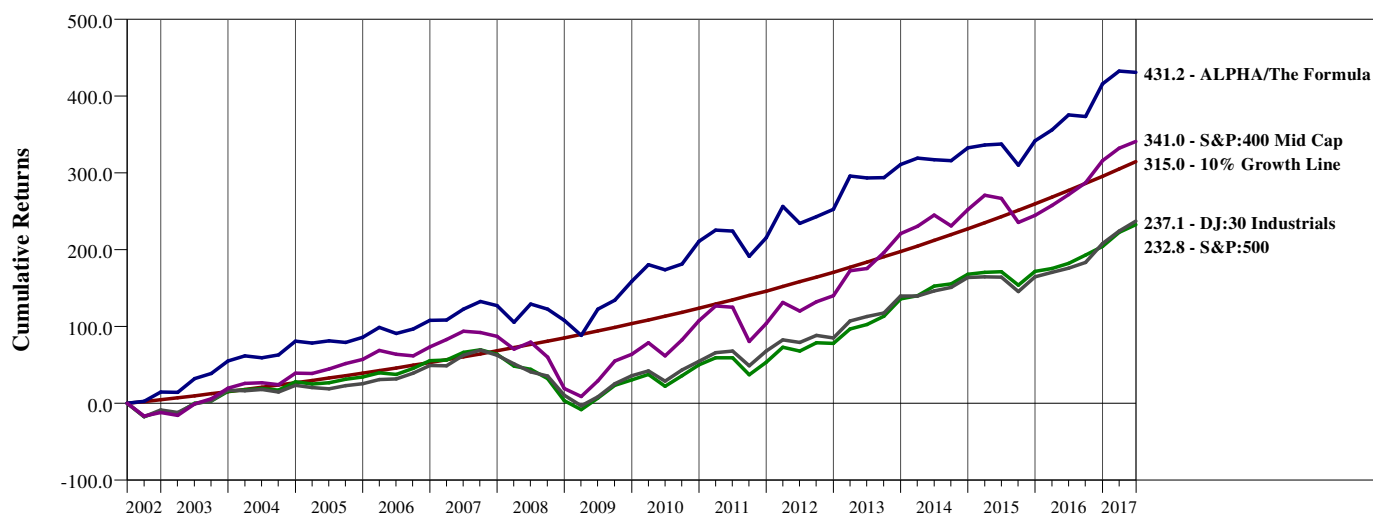
For retired investors seeking to boost returns from low-yielding fixed-income portfolios, The Formula™ represents a lower-risk equity component which has the potential to increase total returns significantly.

The Formula™

Performance History

Net of Fees and Expenses

Cumulative Returns for 15 Years Ended June 30, 2017



Annual Returns for Calendar Years 15 1/2 Years Ended June 30, 2017

	2 Qtrs. 2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
ALPHA/The Formula	2.89	16.86	2.12	5.28	16.48	11.79	1.44	20.18	24.35	-8.37	9.13	11.83	3.00	16.41	35.28	18.41
S&P:400 Mid Cap	5.99	20.74	-2.18	9.77	33.50	17.88	-1.73	26.64	37.38	-36.23	7.98	10.31	12.56	16.48	35.62	-14.51
S&P:500	9.34	11.96	1.38	13.69	32.39	16.00	2.11	15.06	26.47	-37.00	5.49	15.79	4.91	10.88	28.68	-22.10
DJ:30 Industrials	9.35	16.50	0.21	10.04	29.65	10.24	8.38	14.06	22.68	-31.93	8.88	19.05	1.72	5.31	28.28	-15.01

Compound Annual Returns for Periods Ended June 30, 2017

	Last Quarter	1 Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Last 6 Years	Last 7 Years	Last 8 Years	Last 9 Years	Last 10 Years	Last 11 Years	Last 12 Years	Last 13 Years	Last 14 Years	Last 15 Years
ALPHA/The Formula	-0.28	11.64	10.18	8.37	7.77	9.71	8.57	9.93	11.48	9.78	9.07	9.75	9.36	9.70	10.43	11.78
S&P:400 Mid Cap	1.97	18.57	9.61	8.53	12.48	14.92	11.84	15.42	16.56	10.49	8.56	9.43	9.72	10.04	11.24	10.40
S&P:500	3.09	17.90	10.73	9.61	13.18	14.63	13.05	15.41	15.29	9.71	7.18	8.34	8.36	8.20	8.95	8.35
DJ:30 Industrials	3.95	22.12	12.97	11.01	12.13	13.45	12.28	14.71	15.23	10.18	7.57	8.90	9.08	8.41	9.11	8.44

Disclosures: Past performance is not a guarantee of future performance. Returns presented above include both actual client performance and hypothetical (backtested) performance.

Actual client performance: Beginning July 2010, actual client net composite returns are used. The net client composite returns include all internal accounts managed by Alpha Investment Management at various custodians that pay Alpha advisory fees ranging from 0.8% to 2.0% annually, and as such, individual results may vary. The Alpha client composite returns are calculated using the time-weighted rate of return method. The monthly composite level performance is calculated by asset-weighting portfolio performance, using end of month market values. Trade date accounting is used for calculation and valuation purposes. The composite returns are net of all fees and trading expenses and reflect reinvestment of dividends, interest and capital gains. Performance results do not reflect the impact of taxes.

A model portfolio of the same name as this strategy may be managed by Alpha and offered by investment advisors at various trading/investment platforms, TAMPs, and/or custodians outside the parameters of the internal Alpha client composite returns. Assets invested in such model portfolios may experience significant dispersion in returns from those of the internal Alpha client composite. The causes of dispersion may include, but are not limited to, higher or lower advisory fees, custodial fees, trading expenses, the date on which a client engaged Alpha's investment management services, and the preference/availability of funds used to implement the strategy (i.e. ETFs vs. mutual funds) at the custodial level.

Hypothetical (backtested) performance: Returns presented prior to July 2010 are hypothetical (backtested) and represent a reduction in gross returns of 3% annually for fees and expenses, applied quarterly, which would be expected in a real-time internally managed account. (Alpha's maximum advisory fee is 2% per annum. The additional reduction of 1% is to approximate the effect of mutual fund expenses not already incorporated in the hypothetical returns.) Returns assume reinvestment of dividends and interest. Performance results do not reflect the impact of taxes. The backtested data does not account for any additional fees and/or trading expenses that may have been incurred at the custodial level. Backtested performance does not represent actual account performance. The backtested model of The Formula™ is a precise asset allocation strategy applied over time using equity indexes and bond funds as components. The equity indexes are the S&P 500, NASDAQ 100, and the S&P MidCap 400. The backtested data does include interest and dividends attributed to each index. The bond component is an intermediate-term bond fund. The bond fund expenses are included in the backtested returns. The Formula™ model is not an actual investment, but rather a recipe detailing the allocation of indexes and bond funds over time. As such, it is, like an index, not investable. A managed account based on The Formula™ may use funds which deviate from the indexes in the illustration.

Cautions: The SEC mandates that we state: The investment strategy that the backtested results were based upon can (theoretically) be changed at any time with the benefit of hindsight in order to show better backtested results, and (theoretically) the strategy can continue to be tested and adjusted until the desired results are achieved. Please note that Alpha has not made any data-fitting adjustments to its managed account model. Even though the rules of the strategy are mechanical, objective, and fully disclosed, hypothetical models must be approached with caution because they are created with the benefit of hindsight and do not represent how the manager of the model may react under material economic and market conditions. Actual accounts may use funds which deviate from the indexes represented in the model illustration. 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.

Disclosures to The Formula™ Data and Illustrations

The Formula™ is an asset allocation strategy based on the annual forecasting cycle and the four-year presidential election cycle. The strategy determines, in advance, when to be invested in stock index funds and when to be invested in bond funds. The investment components of the strategy are: the S&P MidCap 400 Index, the S&P 500 Index, the NASDAQ 100 Index, and an Intermediate-term Treasury Index fund. Over the course of the four-year presidential election cycle, the strategy is invested 29% of the time in bonds and 71% of the time in stocks.

The description of the construction of The Formula™ is included in this literature.

Actual client performance: Performance presented since July 2010 represent actual net returns of the Alpha client composite. The net client composite returns include all internal accounts managed by Alpha Investment Management at various custodians that pay Alpha advisory fees ranging from 0.8% to 2.0% annually, and as such, individual results may vary. The Alpha client composite returns are calculated using the time-weighted rate of return method. The monthly composite level performance is calculated by asset-weighting portfolio performance, using end of month market values. Trade date accounting is used for calculation and valuation purposes. The composite returns are net of all fees and trading expenses and reflect reinvestment of dividends, interest and capital gains. Performance results do not reflect the impact of taxes.

A model portfolio of the same name as this strategy may be managed by Alpha and offered by investment advisors at various trading/investment platforms, TAMPs, and/or custodians outside the parameters of the internal Alpha client composite returns. Assets invested in such model portfolios may experience significant dispersion in returns from those of the internal Alpha client composite. The causes of dispersion may include, but are not limited to, higher or lower advisory fees, custodial fees, trading expenses, the date on which a client engaged Alpha's investment management services, and the preference/availability of funds used to implement the strategy (i.e. ETFs vs. mutual funds) at the custodial level.

Hypothetical Backtested Performance: Returns presented prior to July 2010 are hypothetical (backtested) and represent a reduction in gross returns of 3% annually for fees and expenses, applied quarterly, which would be expected in a real-time internally managed account. (Alpha's maximum advisory fee is 2% per annum. The additional reduction of 1% is approximate for mutual fund expenses not already incorporated in the hypothetical returns.) Returns assume reinvestment of dividends and interest. Performance results do not reflect the impact of taxes. The backtested data does not account for any additional fees and/or trading expenses that may have been incurred at the custodial level. Backtested performance does not represent actual account performance. The backtested computer model applies the rules of the strategy to indexes which cannot be used in actual investing. The equity indexes are the S&P 500, NASDAQ 100, and the S&P MidCap 400. The backtested data does include interest and dividends attributed to each index. The bond component is an intermediate-term bond fund. Actual bond fund expenses are included in the backtested returns. The Formula™ model is not an actual investment, but rather a recipe detailing the allocation of indexes and bond funds over time. As such, it is, like an index, not investable. A managed account based on The Formula™ may use funds which deviate from the indexes in the illustration. Even though the construction of the strategy is mechanical, objective, and fully disclosed, hypothetical model results 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 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.

Cautions: The SEC mandates that we state: The investment strategy that the backtested results were based upon can (theoretically) be changed at any time with the benefit of hindsight in order to show better backtested results, and (theoretically) the strategy can continue to be tested and adjusted until the desired results are achieved. Please note that Alpha has not made any data-fitting adjustments to its managed account model. Backtested or hypothetical data must be approached with caution because it is constructed with hindsight and may not reflect material conditions that could affect a manager's decision process, thus altering the application of the discipline. There is no assurance that these backtested results could, or would have been achieved by Alpha during the periods presented.

The data used to construct the backtested results were obtained from a database provided by Callan Associates, one of the oldest and largest institutional investment consultants in the U.S. While Alpha believes the data to be reliable, no representation is made as to, and no responsibility, warranty or liability is accepted for the accuracy or completeness of such information. The information and opinions expressed in this document are for informational purposes only. Any recommendation or opinion made in this document may not be suitable for all investors. The information contained herein does not constitute and should not be construed as investment advice, an offering of investment advisory services, or an offer to sell or a solicitation to buy any security.

Past performance does not guarantee future performance. No matter how positive the strategy's returns have been over any time period, there can be no guarantee that the seasonal factors affecting the stock market will persist or that they will have the same intensity as past time periods.

Index Information: The historical performance results of indices are provided exclusively for comparison purposes only, as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of an Alpha strategy meets, or continues to meet, his/her investment objective(s). It should not be assumed that the performance of Alpha account holders will correspond directly to any index presented or any other comparative index. In the event that there has been a change in a client's investment objectives or financial situation, he/she is encouraged to notify Alpha or their respective financial advisor immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investment strategies devised or undertaken by Alpha) will be either suitable or profitable for a client's or prospective client's portfolio.

Alpha Investment Management, Inc. is a SEC registered investment advisor. Such registration does not imply a certain skill or training and no inference to the contrary should be made. Information pertaining to Alpha's advisory operations, services, and fees is set forth in Alpha's current Form ADV Part II, a copy of which is available from Alpha upon request. Information pertaining to any mutual fund that is used in the execution of an Alpha strategy is set forth in each respective mutual fund's prospectus and is available directly from the fund.



2245 Gilbert Avenue, Suite 100 - Cincinnati, Ohio 45206 - t 513.621.9400 - f 513.632.7981 - toll free 877.229.9400 - www.alphaim.net

Q2-2017