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INVESTMENT MANAGEMENT

Alpha Multi-Income Strategy



# Alpha Multi-Income Strategy

## Overview

The Alpha Multi-Income Strategy is designed for investors seeking to achieve capital appreciation and to generate income using an objective, systematic approach that places a strong emphasis on capital preservation and risk management.

The current investment environment for conservative, low-risk investors is challenging. With short-term interest rates near zero, the benefits of holding traditional income investment vehicles such as CDs and short-to-intermediate-term bonds have been greatly diminished. As a result, income-oriented investors have been forced into riskier income-producing investments which are affected by the volatility of the stock market. In addition, despite Wall Street's assurances, the future of the stock market is not guaranteed to be favorable over the five to fifteen year time horizon that most investors think of as "long-term". In spite of the best efforts of politicians, regulators and the Federal Reserve, no government policy has ever been able to alter the cyclical nature of the stock market – bull markets have always been followed by bear markets and it is likely to remain so.

In light of these factors, The Alpha Multi-Income Strategy's objectives are to:

- **Generate income from a variety of sources** by typically holding a diversified portfolio of income-producing, low-expense fee mutual funds.
- **Achieve strong capital appreciation during stock market advances** by holding a portfolio of mutual funds that maintains a high correlation to the S&P 500 Index.
- **Reduce stock market related exposure and portfolio risk during extended stock market declines** by utilizing a mechanical risk management formula which can move the strategy into intermediate term government bonds when the prospect of an extended bear market decline arises.

Alpha's Multi-Income Strategy seeks to control risk through a quantitative, objective method that we call the Alpha Market Trend Filter. This quantitative and completely objective risk-management formula seeks to identify prolonged bear markets in their early stages. This method has been back-tested to 1970 with positive results. At any point in time the market trend filter deems the stock market environment as "favorable" or "unfavorable". When this filter is in "favorable" mode the strategy will hold a diversified portfolio of mutual funds that:

- Generate income from a diverse array of sources
- Generally offer an above average yield
- Maintain a low expense ratio
- Exhibits a strong correlation to the S&P 500 Index

Both above average dividend yields and low mutual fund expense ratios have been highlighted as factors which can enhance the overall performance of a long-term investment strategy.

When the market trend filter is in "unfavorable" mode we remove our clients' assets from the risk of a declining stock market and hold a low volatility, intermediate-term government bond fund until our filter gives the signal to re-enter the stock market.

## The Income Portfolio

When the market trend filter is deemed "favorable" the Multi-Income Strategy consists of five mutual funds, with the assets initially allocated 20% to each fund. We use Vanguard mutual funds exclusively because they offer low expense ratios while maintaining high-quality management.

Fund Name	Category	Expense Ratio <sup>1</sup>
Vanguard Dividend Growth Fund	High Dividend Stocks	0.30%
Vanguard Equity Income Fund	Equity Income	0.26%
Vanguard REIT Index Fund	Real Estate	0.26%
Vanguard High-Yield Corporate Fund	High-Yield Bonds	0.23%
Vanguard Wellesley Income Fund	Stock/Bond Income	0.22%

<sup>1</sup>Source: [www.vanguard.com](http://www.vanguard.com)

## Fund Descriptions

**Vanguard Dividend Growth:** This fund is designed to provide investors with income while offering exposure to dividend-focused companies across all industries. The fund focuses on high-quality companies that have both the ability and the commitment to grow their dividends over time.

**Vanguard Equity Income:** This fund is designed to provide investors with an above-average level of current income while offering exposure to the stock market. The emphasis is on slower-growing, higher-yielding companies that are dedicated to consistently paying dividends.

**Vanguard REIT Index:** This fund invests in real estate investment trusts—companies that purchase office buildings, hotels, and other real estate property. REITs have often performed differently than stocks and bonds, so this fund may offer some diversification to a portfolio already made up of stocks and bonds. The fund may distribute dividend income at a higher rate than other funds.

**Vanguard High Yield Corporate Fund:** This fund invests in a diversified portfolio of medium and lower-quality corporate bonds. This fund seeks to purchase what the advisor considers to be higher-rated junk bonds. The fund goal is to capture consistent income and minimize defaults and principal loss.

**Vanguard Wellesley Income:** This fund's portfolio consists of about a 60-40 split between bond and stock holdings. Bonds are generally high quality, and stock holdings are focused on companies that have historically paid a larger-than-average dividend and/or that have expectations of increasing dividends.

### **Alpha Multi-Income Strategy**

Approximate % Exposure by Asset Class

<b>Asset Class</b>	<b>%</b>
U.S. Dividend Stocks	40
REITS	20
U.S. High-Yield Bonds	15
U.S. Investment Grade Bonds	10
Foreign Stocks	7
Foreign Bonds	6
Cash	2

## Risk Management

### **The Alpha Market Trend Filter**

To reduce stock market risk exposure and to enhance capital preservation and income generation during an extended price decline in the stock market, the Alpha Multi-Income Strategy utilizes an objective, purely quantitative, market trend filter that can result in having the strategy moved into an intermediate-term U.S. Treasury bond fund. Because the strategy is highly correlated to the S&P 500 equity index, the signals from our market trend filter are based on the action of that index.

#### **Sell**

If the S&P 500 index registers two consecutive monthly closes below its own 21-month moving average and is also below its own ten-month moving average, the Alpha Market Trend Filter deems the market trend to be "unfavorable". At that time, the strategy will be switched entirely into intermediate U.S. government bonds, using the **Vanguard Intermediate-Term Treasury Fund Investors Shares**. This fund invests in 3 to 10-year U.S. Treasury securities (expense ratio = 0.20% as of 3/31/2017 at [www.vanguard.com](http://www.vanguard.com)).

#### **Buy**

The S&P 500 trend remains unfavorable until it registers one monthly close above its own ten-month moving average. At this time, the market trend is deemed "favorable" and the five fund, equally-weighted allocation is re-established. The funds are held until the next unfavorable signal is given, with rebalancing occurring every twelve months starting from the "buy" signal.

## Alpha Market Trend Filter Track Record

Month Start	Month End	AMTF +	AMTF -	S&P 500 Total Return % While AMTF +	S&P 500 Total Return % While AMTF -	Int Term Bonds Total Return % While AMTF -	Per Trade Total Return % using AMTF	Per Trade Total Return % using S&P 500 Buy/Hold	Cumulative Total Return % using AMTF	Cumulative Total Return % using S&P 500 Buy/Hold
6/29/1973	1/31/1975		Unfavorable		- 21.1%	+ 12.1%	+ 12.1%	- 21.1%	+ 12.1%	- 21.1%
1/31/1975	5/31/1977	Favorable		+ 37.5%			+ 37.5%	+ 37.5%	+ 54.1%	+ 8.5%
5/31/1977	4/28/1978		Unfavorable		+ 5.6%	+ 3.1%	+ 3.1%	+ 5.6%	+ 58.8%	+ 14.6%
4/28/1978	11/30/1978	Favorable		+ 0.9%			+ 0.9%	+ 0.9%	+ 60.1%	+ 15.6%
11/30/1978	1/31/1979		Unfavorable		+ 6.5%	+ 1.3%	+ 1.3%	+ 6.5%	+ 62.2%	+ 23.1%
1/31/1979	9/30/1981	Favorable		+ 33.8%			+ 33.8%	+ 33.8%	+ 117.1%	+ 64.7%
9/30/1981	8/31/1982		Unfavorable		+ 8.6%	+ 23.8%	+ 23.8%	+ 8.6%	+ 168.7%	+ 78.8%
8/31/1982	6/29/1984	Favorable		+ 39.5%			+ 39.5%	+ 39.5%	+ 275.0%	+ 149.5%
6/29/1984	8/31/1984		Unfavorable		+ 9.7%	+ 4.5%	+ 4.5%	+ 9.7%	+ 291.8%	+ 173.6%
8/31/1984	11/30/1987	Favorable		+ 55.8%			+ 55.8%	+ 55.8%	+ 510.4%	+ 326.2%
11/30/1987	6/30/1988		Unfavorable		+ 21.3%	+ 5.0%	+ 5.0%	+ 21.3%	+ 541.1%	+ 417.1%
6/30/1988	9/28/1990	Favorable		+ 21.1%			+ 21.1%	+ 21.1%	+ 676.5%	+ 526.3%
9/28/1990	1/31/1991		Unfavorable		+ 13.7%	+ 5.4%	+ 5.4%	+ 13.7%	+ 718.7%	+ 612.1%
1/31/1991	12/29/2000	Favorable		+ 378.9%			+ 378.9%	+ 378.9%	+ 3821.0%	+ 3310.5%
12/29/2000	3/28/2002		Unfavorable		- 11.6%	+ 7.7%	+ 7.7%	- 11.6%	+ 4121.7%	+ 2913.5%
3/28/2002	4/30/2002	Favorable		- 6.1%			- 6.1%	- 6.1%	+ 3865.9%	+ 2730.9%
4/30/2002	4/30/2003		Unfavorable		- 13.3%	+ 8.9%	+ 8.9%	- 13.3%	+ 4218.9%	+ 2354.1%
4/30/2003	2/29/2008	Favorable		+ 58.7%			+ 58.7%	+ 58.7%	+ 6751.9%	+ 3793.4%
2/29/2008	6/30/2009		Unfavorable		- 28.5%	+ 4.6%	+ 4.6%	- 28.5%	+ 7067.1%	+ 2682.3%
6/30/2009	9/30/2015	Favorable		+ 138.2%			+ 138.2%	+ 138.2%	+ 16970.5%	+ 6526.8%
9/30/2015	10/30/2015		Unfavorable		+ 8.4%	- 0.3%	- 0.3%	+ 8.4%	+ 16912.5%	+ 7086.1%
10/30/2015	2/29/2016	Favorable		- 6.3%			- 6.3%	- 6.3%	+ 15839.0%	+ 6632.6%
2/29/2016	3/31/2016		Unfavorable		+ 6.8%	+ 0.2%	+ 0.2%	+ 6.8%	+ 15869.3%	+ 7089.1%
3/31/2016	12/31/2017	Favorable		+ 34.6% *			+ 34.6% *	+ 34.6% *	+ 21393.1% *	+ 9575.8% *
<b>Average %</b>				+ 65.5% <sup>1</sup>	+ 0.5% <sup>2</sup>	+ 6.4% <sup>3</sup>		<b>% Net Gain</b>	+ 21393.1% <sup>4</sup>	+ 9575.8% <sup>5</sup>

\*As of 12/31/2017

Date Source: PEP Database by Callan Associates

Disclosure: Indexes are not investment vehicles and persons cannot invest directly in an index. The above data does not represent actual trading and is not representative of any Alpha Investment Management strategy. This illustration is designed to quantify the effect of certain time periods on representative market indexes. Past performance is not a guarantee of future performance.

### System:

Hold S&P 500 if Alpha Market Trend Filter is Favorable (Using S&P 500 Total Return Index)

Hold Intermediate-term bonds when Alpha Market Trend Filter is Unfavorable (Using Bloomberg Barclay's Intermediate Bond Total Return Index)

### Footnotes:

1-Average S&P 500 Total Return percentage during Favorable Alpha Market Trend Filter periods

2-Average S&P 500 Total Return percentage during Unfavorable Alpha Market Trend Filter periods

3-Average Intermediate-Term Bond Total Return during Unfavorable Alpha Market Trend Filter periods

4-Total System % Gain (Long S&P 500 when Alpha Market Trend Filter is "Favorable", Long Bonds when Alpha Market Trend Filter is "Unfavorable")

5-Total S&P 500 % Gain (Buy and Hold)

As you can see from the chart above, the Alpha Market Trend Filter has generally succeeded in identifying the changing trends of prices in the stock market for over four decades.

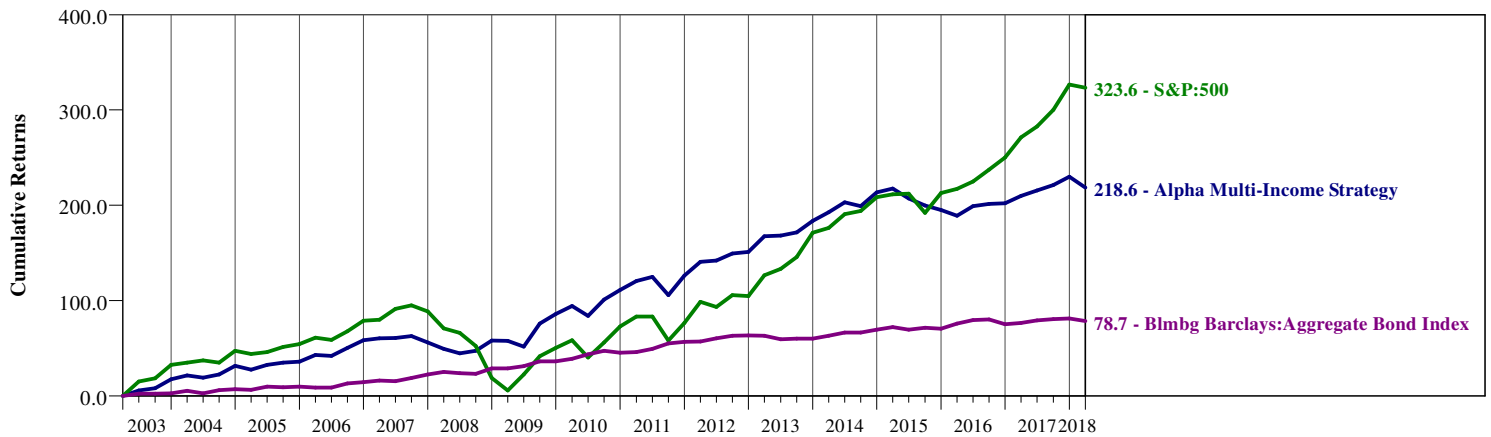
## The Portfolio Manager

The Alpha Multi-Income Strategy was designed by Jay Kaepfel, a well-known investment educator and author. His many publications include Seasonal Stock Market Trends (Wiley, 2009) which is widely regarded as the definitive study of seasonal influences on the stock market and investment strategies based on them.

Mr. Kaepfel acts as the portfolio manager for the Alpha Multi-Income Strategy and calculates the Alpha Market Trend Filter.

## Alpha Multi-Income Strategy Performance History Net of Fees & Expenses

**Cumulative Returns  
for 15 Years Ended March 31, 2018**



**Annual Returns for Calendar Years  
15 1/4 Years Ended March 31, 2018**

	1 Qtr:	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Alpha Multi-Income Strategy		-3.48	9.26	2.42	-5.97	10.58	13.00	10.92	7.09	13.63	17.53	1.22	-1.41	16.60	3.24	12.13	18.17
S&P:500		-0.75	21.83	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
Blmbg Barclays:Aggregate Bond Index		-1.46	3.54	2.65	0.55	5.97	-2.02	4.21	7.84	6.54	5.93	5.24	6.97	4.33	2.43	4.34	4.10

**Compound Annual Returns  
for Periods Ended March 31, 2018**

	Last Quarter	Last 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 Multi-Income Strategy	-3.48	2.82	5.01	0.09	2.13	3.54	4.78	5.39	6.37	8.13	7.86	6.42	6.90	7.29	7.12	8.03
S&P:500	-0.75	14.00	15.57	10.78	11.27	13.31	13.42	12.71	13.07	16.66	9.50	8.08	8.39	8.64	8.50	10.10
Blmbg Barclays:Aggregate Bond Index	-1.46	1.20	0.82	1.20	2.31	1.82	2.15	2.92	3.20	3.69	3.63	3.99	4.21	4.05	3.84	3.95

**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:** Performance presented since February 2015 represent actual net returns of the Alpha client composite. The net client composite returns include all internal accounts managed in the strategy at TCA by E\*TRADE (formerly Trust Company of America) 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 TCA by E\*TRADE (formerly Trust Company of America) 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 at the custodial level.

**Hypothetical (backtested) performance:** Returns presented prior to February 2015 are hypothetical (backtested) and reflect a reduction in gross returns of Alpha's maximum advisory fee of 2% annually, applied quarterly on the first month of each quarter, which would be expected in a real-time internally managed account. The returns assume reinvestment of dividends and interest. Accounts are rebalanced every twelve months starting from the "buy" signals generated by the Alpha Market Trend Filter. All switches occur on the last trading day of the month. Mutual fund expenses are accounted for in the hypothetical net returns presented above. No allowance has been made in the hypothetical returns for additional fees and/or trading expenses that may be incurred at the custodial level. Potential investors should inquire about any additional costs that may affect their total expense factor. Performance results do not reflect the impact of taxes. Backtested performance does not represent actual account performance, and the actual results of any Alpha client may have been materially different than the results of the hypothetical results presented.

**Cautions:** The model uses computer backtesting to reconstruct past returns based on the instructions of the strategy. Hypothetical backtests should be regarded with caution since they are created with the benefit of hindsight and do not reflect how the investment manager would have reacted to the occurrence of actual market and economic events. Backtested performance does not represent actual account performance. There is no assurance that these backtested results could, or would have been achieved by Alpha during the periods presented. 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. The data used to construct the hypothetical backtested results were obtained from a database provided by Callan Associates, an institutional investment consultant. 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.

## Disclosures to the Alpha Multi-Income Strategy Data and Illustrations

The Alpha Multi-Income Strategy seeks to control risk through a quantitative, objective method that we call the Alpha Market Trend Filter. This completely objective risk-management formula seeks to identify prolonged bear markets in their early stages. At any point in time the market trend filter deems the stock market environment as “favorable” or “unfavorable”. When this filter is in “favorable” mode the strategy will hold a diversified portfolio of mutual funds. When the market trend filter is in “unfavorable” mode we remove our clients’ assets from the risk of a declining stock market and hold a low volatility, intermediate-term government bond fund until our filter gives the signal to re-enter the stock market. Accounts are rebalanced every twelve months starting from the “buy” signals generated by the Alpha Market Trend Filter. All switches occur on the last trading day of the month.

The description of the construction of the Alpha Multi-Income Strategy is included in this literature.

**Actual client performance: Performance presented since February 2015** represent actual net returns of the Alpha client composite. The net client composite returns include only internal accounts managed in the strategy at TCA by E\*TRADE (formerly Trust Company of America) 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 TCA by E\*TRADE (formerly Trust Company of America) 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 at the custodial level.

**Hypothetical (backtested) performance: Returns presented prior to February 2015** are hypothetical (backtested) and represent a reduction in gross returns of 2% annually for fees, applied quarterly, which would be expected in a real-time internally managed account. (Alpha’s maximum advisory fee is 2% per annum.) Actual mutual fund expenses are 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, and the actual results of any Alpha client may have been materially different than the results of the hypothetical results presented.

The model uses computer backtesting to reconstruct past returns based on the instructions of the strategy. The data used to construct the backtested results were calculated using the returns of the actual Vanguard mutual funds used in the strategy. Mutual fund expenses are accounted for in the backtested returns presented. The Vanguard mutual funds used were:

VDIGX – Vanguard Dividend Growth Fund Investor Class  
VEIPX – Vanguard Equity Income Fund Investor Class  
VGSIX – Vanguard REIT Income Fund Investor Class  
VWEHX – Vanguard High-Yield Corporate Fund Investor Class  
VWINX – Vanguard Wellesley Income Fund Investor Class  
VFITX – Vanguard Intermediate Term Treasury Fund Investor Class

The backtested data was rebalanced every twelve months starting from the “buy” signals generated by the Alpha Market Trend Filter.

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 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, an institutional investment consultant. 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 strategy will perform the same as it has in past time periods.

**Index Information:** The S&P 500 Index is market-cap weighted index and is widely regarded as the best single gauge of large-cap U.S. equities. The index includes the common stock of 500 leading companies and captures approximately 80% coverage of available market capitalization. The Bloomberg Barclays US Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. The index includes Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in U.S. The index is an intermediate term index, with an average maturity as of 4.57 years. 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.

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