

alpha

INVESTMENT MANAGEMENT

Alpha Seasonal Strategy



Overview

The Alpha Seasonal Strategy is designed for investors seeking a long-term, systematic approach to risk management. The primary objective of the strategy is to have exposure to the stock market during very restricted time periods when the risk of loss is low, thus attempting to avoid large losses which can cost investors years of compounding, not to mention the stress of coping with the uncertainties of recovery. This is particularly important to investors in retirement and just before retirement, when investments are needed for income for life.

The secondary objective of this strategy is to achieve gains every year, which, over time, will be high enough to offset the effects of inflation and taxes, providing a meaningful real rate of return. This program is intended to provide income investors with a growing income stream sufficient to maintain and grow their standard of living over the years.

The Alpha Seasonal Strategy exploits three persistent seasonal factors which have affected risk and return for decades.

Factor #1: The Four-Year Presidential Election Cycle

If you had to pick one year to be in the stock market, the pre-election year would be it. Since 1933, the Dow Jones Industrial Average has appreciated in 19 out of 20 pre-election years, scoring a minor loss of 2.9% in 1939. However, when dividends are included, that loss converts to a gain, and the average gain with dividends comes to about 21%. This return is about three times the average return of the post-election, mid-term, and election years.

The table to the right shows the average appreciation of the Dow Jones Industrial Average, the S&P 500, and NASDAQ during the election cycle since 1963.

Year	DJIA	SPX	OTC	Percentage of the years the index was up for the year
Year 1	3.3%	3.7%	4.8%	DJIA 45%, SPX 55%, OTC 64%
Year 2	1.0%	-0.3%	-2.57%	DJIA 55%, SPX 55%, OTC 45%
Year 3	17.89%	18.63%	38.65%	DJIA 100%, SPX 100%, OTC 92%
Year 4	5.6%	6.7%	12.0%	DJIA 75%, SPX 83%, OTC 75%

As you can see, years one and two (post-election, mid-term) are a toss up, having been down about as often as up. The election year has a better record, but is blemished by 2008, when the markets produced losses of over 30%.

In our opinion, the strength of the pre-election year can be attributed to two causes. First, the mid-term elections have decided whether or not the White House will get cooperation from Congress over the next two years. The market hates uncertainty and this issue no longer remains unsettled. Second, politicians know that their chances of staying in power are greatly reduced if the economy is struggling during the presidential elections. Therefore, in the pre-election year incumbents begin laying the legislative groundwork for prosperity over the next 12 to 18 months.

The Federal Reserve cooperates by expanding the money supply and, if possible, by reducing interest rates. The pork barrel comes rolling out, pledges of fiscal responsibility are made (hypocritically) and business-friendly legislation moves to the front burner.

Alpha's Seasonal Strategy is fully invested in stocks from January to October of the pre-election year. The strategy during this period is equally divided between the S&P 500 and the NASDAQ 100. The NASDAQ 100 index consists of the 100 largest companies traded over-the-counter. It is tilted toward large technology companies and is particularly responsive during the pre-election year.

Factor #2: The Best Six Months and the "Dead Zone"

Since the end of World War II, the U.S. stock market has historically exhibited a persistent tendency to take a "vacation" from the beginning of May to the end of October. Specifically, since 1950, the market has performed immensely better between the first trading day of November through the last trading day of April than the rest of the year.

Here are the facts, from May 1, 1950 – April 30, 2017, using the Dow Jones Industrial Average:

- The Dow posted a gain 79% of the time between November 1 and April 30 with an average return of 7.6%.
- The Dow posted a gain 60% of the time between May 1 and October 31 with an average return of 0.4%.
- A \$10,000 investment only during the November-to-May bullish period grew to \$985,223.
- A \$10,000 investment during all other days in the May-to-November bearish period shrank to \$9,681.

Source: [Stock Trader's Almanac 2018](#), Wiley

The period between May and November has become known as the market's "dead zone". Even though this period has been up 60% of the time since 1950, the down periods have often times been brutal. September's average rate of return is negative and the first half of October has been the bottom for several bear markets.

We believe that long-term investors would have been much better off invested in bonds during this period. The exception to this rule has been the pre-election year. Historically, the pre-election year has posted a gain regularly during the “dead zone”, which means that the statistics for the other three years in the four-year presidential election cycle are far worse than “average” during this period. Correspondingly, the Alpha Seasonal Strategy invests in bonds during the “dead zone”, except for the pre-election year. (For more detailed information of how the strategy is allocated on an annual basis, please refer to the Asset Allocation Schedule included in this brochure.)

Factor #3: Fourth Quarter Power Periods

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

Power Period #1: Last two trading days of October, first two trading days of November.

Power Period #2: Last six trading days of November, 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, our research has found that the stock market performs 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” outlined above.

Employing this strategy, there have been just four losing quarters over this time period, representing an 89.7% win rate.

The Alpha Seasonal Strategy uses special leveraged small-cap 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 historical track record of the Russell 2000 index to produce positive returns during these periods.

The **1.5 Beta Statistics** section of the chart shows that there have been four historical losses, while the average trade has generated gains of 2.8%. Overall, the three power periods have produced an average gain of 8.5% per quarter while exposing assets to market risk just 8% of the time each year.

While historical performance may not be indicative of future performance, with an 89.7% win rate this particular trend remains one of the most consistent market-based factors we are aware of.

Russell 2000 Fourth Quarter Power Periods						
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%	10.8%	16.6%	
1980	1.33%	0.12%	2.16%	3.6%	5.4%	
1981	3.11%	2.18%	0.12%	5.5%	8.4%	
1982	2.72%	2.64%	2.30%	7.9%	12.0%	
1983	-0.91%	0.73%	1.36%	1.2%	1.8%	
1984	0.53%	-2.26%	0.79%	-1.0%	-1.5%	
1985	1.02%	3.27%	1.58%	6.0%	9.2%	
1986	1.18%	3.00%	-1.38%	2.8%	4.2%	
1987	10.80%	-5.20%	0.49%	5.8%	8.4%	
1988	0.21%	2.48%	1.98%	4.8%	7.2%	
1989	0.17%	1.08%	3.33%	4.7%	7.1%	
1990	0.55%	5.26%	1.24%	7.3%	11.0%	
1991	1.08%	-0.17%	7.56%	8.8%	13.4%	
1992	0.92%	2.89%	2.79%	6.8%	10.3%	
1993	1.64%	1.16%	3.19%	6.1%	9.3%	
1994	0.60%	-1.55%	3.99%	3.0%	4.6%	
1995	2.17%	3.92%	3.22%	9.7%	14.9%	
1996	0.55%	3.01%	1.82%	5.5%	8.4%	
1997	1.73%	0.75%	3.99%	6.6%	10.0%	
1998	4.27%	0.18%	4.93%	9.7%	14.9%	
1999	3.70%	0.75%	5.95%	10.9%	16.6%	
2000	5.58%	1.20%	5.48%	12.4%	18.7%	
2001	0.88%	5.93%	1.37%	8.3%	12.6%	
2002	4.91%	2.39%	-0.06%	7.3%	11.0%	
2003	1.34%	3.72%	1.85%	7.0%	10.6%	
2004	-0.29%	4.61%	0.84%	5.2%	8.0%	
2005	5.21%	1.15%	0.09%	6.5%	9.9%	
2006	-2.05%	0.72%	0.73%	-0.7%	-1.1%	
2007	-2.86%	3.52%	1.39%	1.7%	2.3%	
2008	10.86%	11.34%	2.87%	25.7%	38.6%	
2009	0.84%	0.60%	1.11%	2.4%	3.5%	
2010	1.25%	4.40%	-0.87%	4.8%	7.2%	
2011	-4.22%	6.43%	0.36%	2.3%	3.5%	
2012	0.14%	2.78%	0.17%	3.1%	4.7%	
2013	-1.14%	1.96%	3.39%	4.2%	6.3%	
2014	1.66%	1.84%	0.73%	4.3%	6.5%	
2015	1.09%	0.33%	0.72%	2.2%	3.3%	
2016	-2.31%	1.18%	-1.94%	-3.1%	-4.6%	
2017	-0.78%	-0.14%	-0.08%	-1.0%	-1.5%	

1.5 BETA STATISTICS	
Total Quarters = 39	Average Quarter Return = 8.5%
Losing Quarters = 4	Market Exposure = 8%
Win Rate = 89.7%	Average Gain Per Trade = 2.8%
Largest Quarter Loss (2016) = -4.6%	
Largest Quarter Gain (2008) = 38.6%	

Disclosures: Past performance is not a guarantee of future performance. The data presented above does not represent actual trading and is not representative of the returns of the Alpha Seasonal Strategy. This data is provided for illustrative purposes only. For the actual returns of the strategy, please refer to the Alpha Seasonal Strategy Performance History included in this brochure. The Russell 2000 is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index and is the most common benchmark for mutual funds that identify themselves as “small-cap”. As of December 31 2017, the weighted average market capitalization for a company in the index is around \$2.4 billion. Indexes are not investment vehicles and persons cannot invest directly in an index. The returns are based on price data only and do not include dividends and should not be considered return or performance data. Index funds may vary somewhat from index returns due to management fees and portfolio structure. The illustration is designed to quantify the effect of certain time periods on the Russell 2000 Index. Data Source: <http://www.marketwatch.com/investing/index/RUT/historical>

Alpha Seasonal Strategy

Asset Allocation Schedule

Combining our three seasonal factors into one strategy results in the following asset allocation schedule:

Alpha Seasonal Strategy Asset Allocation Over the Four-Year Presidential Election Cycle

	JANUARY 1 → APRIL 30	MAY 1 → OCTOBER 31 (-2)	DECEMBER 31
Year 1 (Post-Election)	50% S&P 500 50% Bonds	100% Bonds	Three Power Trades & Cash/Money Market
Year 2 (Mid-Term)	50% S&P 500 50% Bonds	100% Bonds	Three Power Trades & Cash/Money Market
Year 3 (Pre-Election)	50% S&P 500 50% NASDAQ 100	100% Cash/Money Market	Three Power Trades & Cash/Money Market
Year 4 (Election)	50% S&P 500 50% Bonds	100% Bonds	Three Power Trades & Cash/Money Market

When the strategy is in bonds, we use a 50/50 combination of an intermediate-term bond fund (3 to 7 years maturity) and a short-term bond fund (1 to 3 years maturity). Beginning in late-October of each year, the strategy enters into three “power period” trades using a Russell 2000 index fund leveraged by 1.5 beta. These trades total 20 days in the fourth quarter. When not invested in the three power period trades in the fourth quarter of each year the strategy is allocated to cash/money market.

Summary

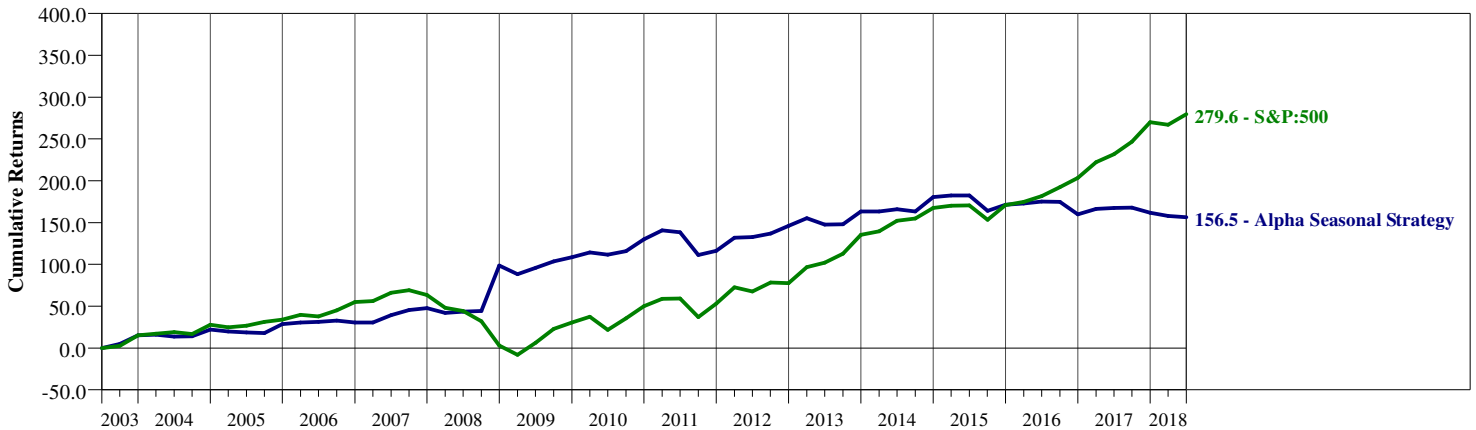
In the end, we believe that the Alpha Seasonal Strategy can be seen as a simple strategy for managing equity capital efficiently over time. Market risk is assumed only during periods when a positive market climate is expected. This expectation is based upon three seasonal factors which are well-defined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

In our opinion, the Alpha Seasonal Strategy 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 historical 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, we believe that the Alpha Seasonal Strategy represents a lower-risk equity component which may have the potential to increase total returns significantly over the long-term.

Alpha Seasonal Strategy Performance History Net of Fees and Expenses

Cumulative Returns for 15 Years Ended June 30, 2018



Annual Returns for Calendar Years 15 1/2 Years Ended June 30, 2018

	2 Qtrs. 2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Alpha Seasonal Strategy	-2.06	0.82	-4.23	-3.29	6.40	7.20	13.70	-6.00	10.17	5.08	34.39	13.42	1.34	5.36	5.99	32.72
S&P:500	2.65	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

Compound Annual Returns for Periods Ended June 30, 2018

	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 Seasonal Strategy	-0.51	-4.17	-3.44	-3.16	-0.91	0.70	1.62	1.05	2.42	3.04	5.98	5.69	5.75	6.11	5.99	6.48
S&P:500	3.43	14.37	16.12	11.93	10.79	13.42	14.59	13.23	15.28	15.19	10.17	7.82	8.83	8.81	8.63	9.30

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 2009, 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 2009 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. There is no assurance that these backtested results could, or would have been achieved by Alpha during the periods presented.

The Alpha Seasonal Strategy is an active asset-allocation strategy exploiting historical persistent seasonal factors affecting the stock market. The rules of the strategy are objective and fully disclosed. The hypothetical backtested computer model applies the rules of the strategy to indexes which cannot be used in actual investing rather than actual investment vehicles. The actual strategy invests in index funds and bond funds, which may have results different from the indexes themselves. In the case of bonds, the backtested computer model uses the Bloomberg Barclays 1-3 Treasury Index. The actual strategy uses a mix of intermediate-term and short-term bond funds – which have different returns than the index.

In the fourth quarter, the strategy is invested in cash/money market funds when not invested in the three "power period" trades leveraged by 50%. The results of these trades are included in the performance of the model. The hypothetical returns do not reflect interest that would have been earned on cash/money market funds in the fourth quarter. Other indexes used in the model are the S&P 500, the NASDAQ 100, and the Russell 2000. Indexes are not investment vehicles and persons cannot invest directly in an index. The actual strategy invests in index funds, which may vary somewhat from index returns due to management fees and portfolio structure. The data does include interest and dividends attributed to the S&P 500 and NASDAQ 100 indexes.

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. 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. 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. 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.

Investors should be aware that the use of leveraged funds for 20 days in the fourth quarter of each year increases the volatility and risk of the equity component of the strategy. Leverage can magnify the losses of an investment during a down market. Given the potential risks involved, strategies employing leverage may not be suitable for all investors.

Disclosures to Alpha Seasonal Strategy Data and Illustrations

The Alpha Seasonal Strategy is an asset allocation strategy that seeks to exploit three persistent seasonal tendencies in the stock market which have historically affected risk and return for decades. The model determines, in advance, when to be invested in stock index funds and/or when to be invested in bond funds. Categorized by the four-year presidential election cycle, the investment components of the model are:

- Year 1, 2 and 4 – January 1 to April 30: 50% S&P 500, 25% intermediate-term bond fund, 25% short-term bond fund; May 1 to late-October: 50% intermediate-term bond fund, 50% short-term bond fund
- Year 3 – January 1 to September 30: 50% S&P 500 / 50% NASDAQ 100
- During the fourth quarter of Year 1, 2, 3, and 4: Three power period trades totaling 20 days using the Russell 2000 Index leveraged by 50%. The strategy is invested in cash/money market during the fourth quarter when not invested in the three power period trades. Investors should be aware that the use of leveraged funds in the fourth quarter of each year increases the volatility and risk of this strategy.

The description of the construction of the Alpha Seasonal Strategy is included in this literature.

Actual client performance: Performance presented since July 2009 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 2009 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, and the actual results of any Alpha client may have been materially different than the results of the hypothetical results presented.

The Alpha Seasonal Strategy is an active asset-allocation strategy exploiting persistent seasonal factors affecting the stock market. The rules of the strategy are objective and fully disclosed. The backtested computer model applies the rules of the strategy to indexes rather than actual investment vehicles. In the case of bonds, the backtested computer model uses the returns of the Bloomberg Barclays 1-3 Treasury Index. The actual strategy uses a mix of intermediate-term and short-term bond funds – which have different returns than the index. In the fourth quarter, the strategy is invested in cash/money market funds when not invested in the three "power period" trades leveraged by 50%. The results of these trades are contained in the model. The hypothetical returns do not reflect interest that would have been earned on cash/money market funds in the fourth quarter. Other indexes used in the model are the S&P 500, the NASDAQ 100, and the Russell 2000. Indexes are not investment vehicles and persons cannot invest directly in an index. The actual strategy invests in index funds, which may vary somewhat from index returns due to management fees and portfolio structure. The data does include interest and dividends attributed to the S&P 500 and NASDAQ 100 indexes. 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 third-party sources, including 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.

Investors should be aware that the use of leveraged funds for 20 days in the fourth quarter of each year increases the volatility and risk of the equity component of the strategy. Leverage can magnify the losses of an investment during a down market. Given the potential risks involved, strategies employing leverage may not be suitable for all investors.

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 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 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 2A, a copy of which is available from Alpha upon request. Information pertaining to any fund that is used in the execution of an Alpha strategy is set forth in each respective fund's prospectus and is available directly from the fund.

