

Alpha
CAPITAL MANAGEMENT
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The year 2007 marks another milestone for Alpha Capital Management. Our managed assets rose to over \$315 million and we are reaching a level of maturity that we could only dream about when we started five years ago. We added a dedicated analyst, trader, and other investment professionals this past year and enacted a number of initiatives that we expect will enhance our management of your assets and your experience with our firm.

In terms of the markets, due to the ongoing credit malaise and resultant fears of an economic slowdown, the S&P500 ended down -3.82% in the fourth quarter of 2007 after setting a new record closing high on October 9th. From that closing high to the end of the year, the S&P500 lost roughly 6.2% of its value and is currently down another -9.75% so far in 2008. The primary catalyst for this rapid decline in equities is the lack of confidence in the financial system that has caused a seizing of normal financial system operations. Simply put, fear seems to have gripped the global equity market.

This lack of confidence can mostly be traced to how the Federal Reserve has handled the credit crisis thus far. The Fed's lack of proactive action has spilled over to the entities whose businesses provide stability and insurance to the credit markets. Specifically, the monoline insurers, such as Ambac, an MBIA, are facing questions to their ability to remain as going concerns. These entities insure over \$2.4 trillion dollars in securities and their failure to maintain their AAA credit status places their future in question and will likely add additional stress to the financial system. Given the severe impact the failure of the monoline insurers would have upon our financial system, it is unlikely that their situation will go unresolved. There are numerous actions by the Fed and by private entities that can and most likely will occur that will alleviate this issue. It is the uncertainty of the outcome of this crisis that is having the largest impact on confidence and ultimately the correction we have experienced.

The question now is strategy going forward. While it appears that the economy is weakening, it is not spiraling off a cliff. The Fed has ample room in the fed funds rate to cut interest rates and Washington is already planning numerous fiscal stimulus plans. It is our experience that when faced with uncertainties in a declining market, it is sound strategy to sell underperforming securities and hold those that are outperforming. The idea here is that neutral is a gear too, therefore, an overweighting of cash/cash equivalents is the proper allocation for the current environment. Confidence will likely re-emerge without warning resulting in rapid market movements upward. Investors risk underperformance if they do not have some exposure. By raising cash in your weakest positions, and keeping your strongest, we have ample resources to capitalize on quality names that may have gotten caught up in the downward movement when the time comes to re-engage

Through the Fed and third party intervention, we expect that this situation will ultimately be resolved. We see numerous opportunities being created in this sell off that we expect to capitalize upon when the situation warrants our engagement. We remain long-term positive on our prospects of meeting the goals and objectives laid out in your investment policy statement and view this market turmoil as a long-term opportunity.

In addition to achieving superior investment results, client service is our top priority. We are unaware of another firm that goes to the extent of disclosing performance results and educating our clients the way that we do. Unlike many investment firms, we encourage face to face visits between our investment officers and our clients.

We welcome your call at 512-322-9318 if you would like to speak about the investment management service we provide you. Again, we thank you for your ongoing trust in our management of your assets.

Regards,



Buddie C. Ballard, Jr., CFA

Principal



Michael T. Turner, CFA

Principal