

**Alpha**  
**CAPITAL MANAGEMENT**  
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**Perspectives**  
**First Quarter 2010**

2010 embarked with the expectation that the market strength coming out of 2009 would continue, driven by improving economic fundamentals and company earnings. U.S. earnings largely lived up to the hype, but investors' attention was quickly drawn elsewhere. China initiated steps in reversing its fiscal stimulus programs through tightening bank-lending standards. At the same time Greece's debt woes appeared to be spreading toward the core economies of Europe. That combination, along with concerns about political developments in Washington, sparked a flight out of the more sensitive equity investments. By February 9<sup>th</sup>, the Dow had shed more than 7% from a mid-January high and was down 5% for the year.

Once it became clearer that the debt crisis out of the PIGS (Portugal, Ireland, Greece, and Spain) would be contained, the stock market was able to find its footing and charge higher for the first quarter. Ultimately, the Dow Jones Industrial Average gained 4.1% during the quarter; the Index's fourth consecutive quarterly gain and the best first quarter performance since 1999. The broader S&P 500 stock index rose 4.9%, but is still 25% below its all-time high posted in October 2007. The NASDAQ Composite continued to outperform the other two indices, and gained 5.67% for the quarter. Treasuries were little changed in the quarter, ending March with a 3.85% yield on the ten year Treasury note.

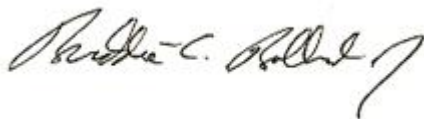
Entering the second quarter, the global bull market is facing some challenges. Compared to the depressed levels of a year ago, stock valuations are becoming stretched and interest rates look set to rise. Equities may be pricing in too much good news, leaving them vulnerable to disappointment if earnings reports and economic conditions don't live up to expectations. Furthermore, the Fed will begin removing liquidity from the market; a difficult task that could dampen economic growth if applied too soon, or create inflation if implemented too late. This could negatively impact both the equity and fixed income markets.

Despite these headwinds, sentiment indicators continue to reflect rising investor optimism. Economic data in manufacturing, servicing and housing display continued improvement. In response, we will maintain our equity allocation overweight to the materials, energy, and technology sectors for the second quarter of 2010. We will continue to monitor market breadth, interest rates, sentiment, and valuation for deterioration that could lead to a stock market correction. If volatility increases substantially, we will likely shift our sector allocations towards staples, utilities, healthcare, and telecom later this year. These sectors, along with higher dividend paying stocks, tend to perform better in volatile markets.

To protect our portfolios from the anticipated rising of interest and inflation rates, we have continued to keep bond allocations in Treasury Inflation Protected Securities, TIPS, and at the short end (1-3 year duration) of the yield curve. Another tool we are evaluating is the addition of a floating rate bond fund to fixed income allocations to take advantage of a rising rate scenario.

Thank you for your continued support and ongoing trust in the management of your assets. Please feel free to contact us if you wish to discuss your account or have further questions.

Sincerely,



Buddie C Ballard, CFA  
Principal



Michael T. Turner, CFA  
Principal