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Perspectives

2009 began with a continuation of the sharp declines we experienced in 2008. Credit markets were frozen and global stock markets were pricing in market collapse. The first quarter of the year was dominated by fear. The major indices tumbled towards their worst bear market drop since 1932 with S&P500 dropping roughly 60% from 10/07 to 3/09.

Since then we've seen a massive global policy response. Unprecedented fiscal and monetary stimulus was applied around the world, and a total systematic collapse was averted. After tumbling 25.4% to a 12-year low in March, the Dow Jones Industrial Average staged a fantastic rebound to finish the year up 18.8%. The broader S&P 500 stock index rose 23.5%, while the NASDAQ Composite rose a blistering 43.89% for 2009. Volatility indicators calmed and credit markets returned to normal. Economic recovery began with U.S. exiting recession in the middle of the year.

Most asset classes rose significantly with mid caps and growth stocks staging the highest returns. Sector performance was driven by technology, materials and consumer discretionary as corporate profits began to improve and commodity prices rallied. Foreign markets rallied as well with emerging markets faring the best, boosted by a weaker U.S. dollar.

The credit markets, reflecting improving economic fundamentals, saw a fall in Treasuries and gains in corporate and high-yield debt as risk appetites returned. The yield curve was extremely steep at the end of the year signaling a continuation of the recovery.

Going into 2010, the economy seems to be showing enough momentum that few investors fear a sudden dip back into recession, although most still expect a slow recovery. The market continues to benefit from the Federal Reserve's pledge to keep interest rates low for an "extended period" and the federal government's stimulus dollars that continue to pour into the economy.

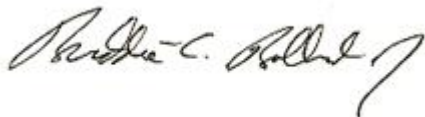
A major unknown is how the market will fare once the Fed starts siphoning off some of the unprecedented amounts of cash it has pumped into the financial markets to support the economy. Investors will be paying close attention to hints from the Fed as to how it's going to proceed and watching for any signs that the central bank's exit strategy is proving disruptive. Of additional concern, is our government's budget deficit, ever increasing debt relative to GDP, and government expenditures relative to GDP which is now running in excess of 25%. All pressure the dollar which raises the prospect for higher inflation and ultimately higher interest rates.

In order to protect our clients from these rising inflation and interest rate concerns, we have continued to keep our bond allocation in Treasury Inflation Protected Securities and at the short end (1-3 year duration) of the yield curve. For the 1st quarter our equity allocation will continue to be overweight the materials, energy, and technology sectors. In addition, we will remain underweight utilities, healthcare, and consumer staples in the immediate future.

While we remain positive on the improving fundamentals for 2010, we do see some possible speed bumps along the way. Three of the main factors that we will be watching to change our asset allocation decisions are market breadth, interest rates, sentiment, and valuation which would prompt a shift in our sector allocation towards staples, utilities, healthcare, and telecom.

We would like to wish you all a joyful and prosperous New Year. As always, we thank you for your ongoing trust in the management of your assets and are available should you wish to discuss your account or have further questions.

Sincerely,



Buddie C Ballard, CFA
Principal



Michael T. Turner, CFA
Principal