Perspectives

March 31, 2007

Alpha Capital Management

Perspective on the 1st Quarter

The first quarter ended on a strong note, posting a .64% gain for the S&P 500, after experiencing a gut wrenching sell off in late February that saw the Dow Jones Industrial Average drop over 400 points in one day. As we indicated in our 1st quarter Perspectives, we expected to see a consolidation of the out-sized returns achieved in the fourth quarter of 2006, but even we were surprised at the depth and breadth of the February market sell off. It was largely touched off by a credit tightening in the Shanghai market and the meltdown of the US sub prime mortgage market, which prompted concern about the condition of the US economy. We believe the protracted move upward since the fall of 2006 without a meaningful correction may have contributed to the magnitude of the selloff. With the benefit of hindsight, the selloff appears to have been largely benign.

Fortunately, most of the internal stops we use to mitigate downward volatility and protect profits were not triggered. This allowed us to stay engaged and weather this short term storm relatively unscathed. We used this period of volatility to add to a number of beaten-down positions and post relatively solid results for the quarter.

On another note, Alpha Capital Management is now one of only seven registered investment advisors that Charles Schwab & Co. Inc. has vetted as an approved investment manager for their clients in Austin, San Antonio, Corpus Christi, and Houston via Schwab's Advisor Network.

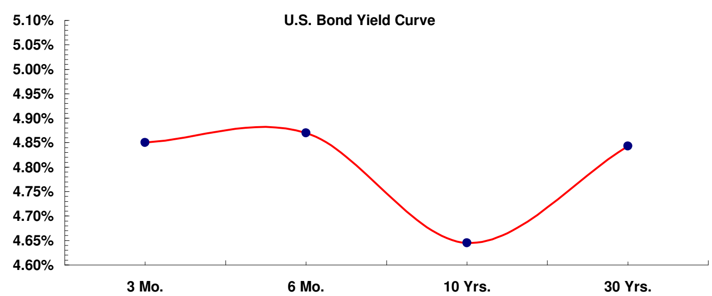
In February we added three new professionals to our staff: Brandon White, CFA, Analyst; Brandon Perry, CFP, ChFC, Investment Officer; and Grace Weeden, Operations Assistant. We are pleased to announce these developments and wish to thank you for your ongoing trust in our management of your assets.

Index Returns

	Through 3/31/2007	2006
S&P 500 Index	0.64%	15.79%
Dow Jones Industrial Avg.	-0.33%	16.29%
Russell 2000 Index	1.95%	18.45%
Lehman Bros. Agg. Bond	1.50%	4.33%
MSCI EAFE Int'l Index	4.18%	26.34%

Economic Data

	Through 3/31/2007	4th Quarter 2006
Fed Funds Rate	5.25%	5.25%
6 Month Treasury Bill	4.85%	5.08%
10 Year Treasury Note	4.65%	4.68%



Our Outlook for the remainder of 2007

As we enter the second quarter of 2007, we see a number of valuation metrics that indicate the market is undervalued in spite of the recent spate of earnings estimate reductions. Notably, the P/E ratio for the S&P 500 is approximately 15.8x as a function of forward earnings estimates. This is roughly in line with historical averages and significantly below the 28x highs achieved in 2000. Also, Greenspan's equity valuation model, which compares the earnings yield of the S&P 500 to the risk free rate as measured by the yield on the 10 year Treasury, indicates that the S&P 500 is undervalued by approximately 18.44% as a function of trailing earnings estimates and approximately 26.43% undervalued as a function of forward earnings estimates. This model is very interest rate and earnings sensitive, but as a barometer it indicates that prices people are paying for earnings of domestic equities are not abnormally inflated.

Of concern are ongoing geopolitical risks, rising energy prices, rising commodity prices, and increases in the rate of inflation. Any signs that inflation is accelerating would likely cause the Federal Reserve to raise rates, which would thwart the rosy valuation measures cited above. Additionally, should the seemingly endless array of Middle East tensions erupt into ever-higher energy prices, the US consumer would inevitably feel the impact, resulting in lower earnings and share prices for US companies. If you couple higher energy prices with global political instability, it would be logical to expect risk premiums to rise, resulting in lower prices for financial assets.

With that said, in the absence of the risks to the financial system previously mentioned, we remain optimistic about the prospects for US and global equities for the balance of 2007 and believe the best opportunities in equities remain in industrials, energy, utilities, and materials.

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