What you get from Aleph Investments

Equities

I give you professional management of a stock portfolio with 30-40 different stocks and cash, which is very close to a clone of my own portfolio, in which 50%+ of my liquid net worth is invested.

Fixed Income

I give you a portfolio of fixed income instruments that has a goal of preserving value in all environments. Some of my family’s money will be invested here, but it is unlikely to be a large part of the investments of my household.

In General

Aleph Investments has full discretion to buy and sell assets, but not to move assets or cash out of your account. Custody is provided by Interactive Brokers as a safeguard for you. I never have access to client funds, even to receive our fee I must bill you and send notice to the Custodian. You can pay the bill or the custodian will remove assets from the account. For those with IRAs, paying the bill maximizes your tax-deferral.

Transparency – you can review your portfolio at any time at Interactive Brokers. Your cost is limited to the fee you pay me, plus transaction costs at Interactive Brokers, and any other fees specific to your actions regarding your account at Interactive Brokers. (Note that Interactive Brokers has a modest inactivity fee of $10/month; given that there other transaction fees are low, that is a small price to pay.)

Interactive Brokers will provide you with a quarterly statement; I will provide monthly commentary. You will have a phone number where you can reach me: 410-750-7894. Snail mail: 3505 N. Chatham Road, Ellicott City, MD 21042. Please don’t send me any money or assets; I will have to return them to you by law. Send all money to the custodian, Interactive Brokers.

I prefer e-mail for routine communications, though. You will have access to my current and past brokerage statements, if you would like to review them. E-mail me to receive the link and the password.

Though I would like my clients to stay with me a long time, your account can be fully or partially liquidated, and transferred to you or another asset manager.

What Aleph Investments gets from you

I only have one source of revenue – the fees you pay me.

Assets			Equities	Fixed Income
$ 1,000,000	and under		1.00%	0.30%
$ 1,000,000	to	$ 50,000,000	0.50%	0.20%
$ 50,000,000	and over		0.25%	0.10%

Each quarter, one–fourth of the fee is taken off the quarter-end net market value. Fees in partial quarters are pro-rata to the number of days in the quarter.

I make no money from trading your account; I only trade your account to make money for you and my other clients, or to help your tax position.

And, if this works right, I get the satisfaction of serving clients well. Honestly, that's what drives me the hardest. If I don't earn excess returns for you, I not only don't do well for my own portfolios, but I will be ashamed that I am not giving clients what they deserve.

David

3/10/2011

PS – Past performance is no guarantee of future returns. Trite, but true.

Investment Policy Statement for Aleph Investments' Equity Strategy

The equity strategy is designed to be about as volatile as an S&P 500 index fund. It is not as diversified as an index fund though, because it invests in only a few of the many industries available, and holds only 30-40 stocks at a time.

In general, the strategy invests in industries where pricing power is improving, or likely to improve, and valuations are cheap relative to growth prospects. Within industries, we select stocks with strong balance sheets. When pricing power is improving rapidly, it can accept companies with somewhat lower balance sheet quality. It also aims for companies that have reasonable earnings quality, reviewing a number of accounting summary measures that tend to correlate with good stock performance.

The strategy is US-centric, but not US stocks only. In the past, non-US stocks have been as high as 40% of the stocks in the portfolio. Ordinarily, that figure is more like 20%. At present, the strategy only purchases assets traded on US and Canadian stock exchanges. The strategy can use ETFs and closed-end funds to access areas of the market outside the US and Canada. When investing outside the US and Canada, investment is limited to countries that respect and protect the rights of outside, passive minority shareholders.

The strategy runs with 0-20% cash, which is adjusted based on relative advantage in the market. Market timing is not a core skill of the strategy. That is why the limit on cash is 20% and not 100%. The cash will ordinarily be invested in a money market fund, but can be invested in bond ETFs or closed-end funds if there is some advantage to be found there.

The strategy does not trade frequently, and tends to generate turnover in the area of 30%. Three or four times per year, new companies are purchased for the strategy, and typically 2-6 companies are added, and a similar number sold. The strategy uses "the economic sell rule" which is that you swap assets you like less for those you like more. Additionally, securities are bought and sold whenever they run 20% away from their target weights, to rebalance the positions.

One more feature of the strategy is that tax losses can be harvested if needed; during those times, an asset that is a close substitute temporarily replaces the asset that was sold. Also, appreciated assets can be donated to facilitate charitable giving.

Investment Policy Statement for Aleph Investments' Fixed Income Strategy

The fixed income strategy is designed without regard for volatility, and does not pay attention to any fixed income benchmarks. It does not target a given yield level. It is designed to try to preserve capital in purchasing power terms, avoiding risk when risks are not being fairly rewarded, and taking risk when risks are being more than fairly rewarded.

Since we are working with small accounts, and aggregate assets in the strategy are likely to be small in bond terms, where liquidity typically only gets good when trades get over $100,000 at minimum, and $1 million more normally, we will be using ETFs and closed-end funds primarily to execute this strategy, with bonds being used directly when they can be traded with low all-in costs.

In general, the strategy considers the following risks – duration, convexity, credit, illiquidity, foreign exchange, inflation, and sovereign.

The strategy is US-centric, but may involve foreign bonds and currencies when there are few opportunities to profit in US investments.

The strategy runs very close to fully invested, with cash-like investments at higher levels when there are few opportunities, and low levels when there are significant opportunities.

The strategy may trade frequently, or little, as conditions demand. This is meant to be an opportunistic strategy.

Aleph Investments, LLC
Privacy Policy

We consider customer privacy to be fundamental to our relationship with clients.

In the course of providing products and services, we collect nonpublic personal information about clients. We collect this information from sources such as account applications, other account forms, information captured on our Web site (including any information captured through our use of "cookies") and client transactions with us, our affiliates or other parties.

We do not disclose nonpublic personal information about our customers or former customers to any nonaffiliated parties, except as required by applicable law or regulation.

We collect and maintain nonpublic, personal information we receive from you directly, on applications, other forms or our website, and from your transactions with us. This information includes, for example, your name, address, Social Security or tax identification number, assets, income, financial needs and goals and account balances and transactions, including transactions with unaffiliated parties. We use this information to evaluate your financial needs and to process your requests and transactions.

The organizations that receive client information will use that information only for the services required and as required by applicable law or regulation, and are not permitted to share or use this information for any other purpose.

In the normal course of serving clients, information we collect may be shared with companies that perform various services such as transfer agents, custodians, and broker-dealers. We do not sell or share your information to any marketing service firms and we have in place agreements with our affiliates that they not sell or share your information to any marketing service providers.

Additionally, on some occasions we may disclose information because we are legally required to do so or in other legally limited circumstances (for example, to protect your account from fraud or in legal proceedings).

If you ask us to provide your information to a trusted third party such as your accountant or attorney, we are glad to oblige.

We employ safeguards to protect the integrity of our clients' information.

Access to customers' nonpublic personal information is restricted to employees, agents or other parties who need to access that information to provide products or services to clients. We maintain physical, electronic, and procedural safeguards that comply with federal and state guidelines to guard clients' nonpublic personal information. A client's right to privacy extends to all forms of contact with us, including telephone, written correspondence, and electronic media, such as the Internet.

Aleph Investments, LLC Proxy Voting Procedures

The Chief Investment Officer shall responsible for voting all shareholder proxies. It will be the Chief Investment Officer's responsibility to ensure that all proxies are voted in a timely manner. Proxies shall be voted in the best interests of shareholders, with an emphasis on voting against any management proposals that act in general to insulate companies from the discipline of the market or accountability to shareholders.

Specific Policies:

A. Corporate Governance

1. Unless exceptional circumstances exist Aleph Investments will vote against proposals that make it more difficult to replace Board members, including proposals to:

a. Stagger the Board;
b. Overweight management on Board;
c. Introduce cumulative voting;
d. Introduce unequal voting rights;
e. Create supermajority voting;
f. Establish pre-emptive rights.

Aleph Investments will vote in favor of any proposals to reverse the above.

Generally, Aleph Investments will withhold its vote for directors who hold little or no stock in the company and have been on the Board for three years or longer, or for new directors who appear to be primarily political or show appointments who do not appear to possess skills or knowledge that is relevant to the company's business.

For companies that have not given us an adequate rate of return (subjectively determined), we will vote down all questions and positions proposed by management, including the auditor.

B. Takeover Defense and Related Actions.

Aleph Investments generally will vote against proposals that make it more difficult for a Company to be taken over by outsiders, and in favor of proposals to do the opposite. The reason for this is that we believe that corporate management should be subject at all times to the incentives and punishments of the market, not insulated from them.

C. Compensation Plans.

Aleph Investments generally will vote against most large incentive pay proposals, with the exception of those that are meant to apply to ordinary employees. Most of the time, management teams are paid well enough; it should be enough to have moderate incentives, and know that if you can't deliver, you will be replaced, just like the rest of us. Once management teams get too well off, they tend to underperform.

Also, we prefer management compensation to be tied to things management/workers can work on, like net operating income or change in book value, rather than stock valuations, which they can't affect much.

In addition, Aleph Investments will vote against any compensation that would act to reward management as a result of a takeover attempt, whether successful or not, such as revaluing purchase price of stock options, golden parachutes or handcuffs, etc.

D. Capital Structure.

Aleph Investments generally will vote against proposals to move the company to another state less favorable to shareholders interests, or to restructure classes of stock in such a way as to benefit one class of shareholders at the expense of another, such as dual classes (A and B shares) of stock.

E. Noneconomic Proposals

Aleph investments will generally vote against noneconomic proposals. We expect firms to follow the law in the places in which they operate, and to observe general ethics beyond that. We don't want firms to follow the ethics of tiny minorities who submit proxy proposals.

F. Size of Board

Aleph Investments will vote against any proposals that act to increase the size of the board beyond 12 - 15 members. We believe generally that large boards have a more difficult time with major changes and other important decisions, and that responsibility is more easily avoided and diffused among too many members.

G. Appointment of Outside Directors.

Aleph Investments also favors separating the roles of Chairman and CEO, and not having the CEO on the nominating committee. The Board's outside directors should not owe their position or allegiance to a member of management, but to the shareholders and/or independent board members alone. For the same reason, we may vote against any outside Board member who has business dealings with a company on whose Board he sits. Allowable exceptions may be venture capitalists who helped bring a company public, and have a great deal of industry knowledge; senior management of companies in industry sectors served by the company, and who may have valuable insight to contribute regarding industry competitive and business factors; and similar factors that may contribute to the knowledge level of the board members.

H. Multiple Director Positions

Aleph Investments will generally vote against any Board member who is also a Director of four or more different companies. Multiple directorships are time-consuming, especially for senior management of other businesses who have other full-time jobs. We find it difficult to believe that in such cases the Director can adequately fulfill his or her responsibilities to the shareholders.

I. Incentive Stock Award Programs:

Aleph Investments will vote against incentive stock awards that act to concentrate significant amounts of stock in the hands of upper management. While we understand the need to incentivize management by placing a significant amount of upper management and director compensation and net worth at risk in the stock market, this needs to be meaningful only at a personal level. It should not necessary to set aside a significant proportion of shareholder capital for a limited number of upper management personnel in order to incentivize them.

Aleph Investments will support proposals that force executives to put their own money on the line in company stock in exchange for other incentives. We are putting our money on the line, so should managers.

J. Conflicts of Interest.

Due to the nature of our business and its small size, it is unlikely that conflicts of interest will arise in voting the proxies of public companies, because Aleph Investments, LLC does not do investment banking, or manage or advise public companies.

Reasons not to invest with me

Don't get me wrong. I want investors, but I want well-informed investors. Every investment strategy has cold streaks, and I would like to be judged over a full market cycle rather than over one month's or one year's results. I would like my client assets to be sticky, unless I do something truly horrible. Here are reasons not to invest with me:

1) I'm just one person. I am healthy, but I could be hit by a bus tomorrow, and then how would the assets be managed? Also, the challenges of managing a business by myself and growing it could prove deleterious to my ability to manage the assets well. I think I am up to the challenge, but you never can tell.

Now, I don't trade that frequently, and I tend to hold high quality companies, so if you hear that I have died, you probably won't be badly affected; just take control of your account, and liquidate my positions, and replace them with a S&P 500 ETF, or cash, as you see best.

2) I don't trade very often. In general I hold stocks on average for three years. Some months I do not trade much at all; some months I trade a lot. When the market is in a trading range, I tend not to trade that much. After the market has been in a sustained rally, I tend to sell. After the market has been falling significantly, I tend to buy. Please don't equate level of activity in your account, or the lack of it, as a sign that your assets are being improperly managed.

I do trades for two reasons. Reason number one is 3 to 4 times per year, I make changes to the portfolio. I typically buy three or four new stocks at each point in time and sell an equivalent number. The reason I don't do this on continuous basis, is that by making fewer decisions, I make better ones. It forces me to compare my old portfolio versus new candidates all at once. Typically, at those times you will see a flurry of trades. The second reason I make trades is one a stock has risen 20% above my target weight for the stock, or fallen 20% below my target weight for the stock. I will then typically sell into strength to bring it back to the target weight, or buy into weakness to bring the stock back to target weight. I do not automatically buy into weakness, but I take time to analyze my thesis. If I discover I am wrong, I sell out the whole position. If I'm still convinced of the merits the stock, I buy more to bring it up to target weight.

One more thing: my biggest losses have been on companies that I have invested in, reinvested in, and reinvested in again. I think I've learned my lesson there, but it's not impossible that I might make that error again. The flipside of that error is that my biggest gainers in the past have more than paid for my biggest losers. Rebalancing has often produced for me very low average cost positions on winning investments.

3) I might underperform. I am intellectually honest enough to realize that even though my strategy, as managed for my personal account, beat the S&P 500 by a significant amount over the last 10 years, does not mean that it will outperform over the next 10 years. I am encouraged by the fact that nine out of ten years, I beat the index, and in the one year that I missed, I missed by only 1%.

All that said, I will do my best for you. Also, I will never have less than 50% of my liquid assets invested in this strategy. At present, over 80% of my liquid assets are invested in this strategy.

4) I will aim for tax-efficiency, but might not achieve it. Because of my portfolio rebalancing strategy, I tend to produce capital gains, including short-term capital gains. You can ask me to produce more losses

in your account for taxation purposes, or harvest gains as you see best. In order to keep your account like my model composite, I will enter into trades at such a time to keep your exposure roughly in line, by replacing the stock removed with a similar stock or ETF. For example, if we sold some Pepsi, I would replace it with Coke.

Other tax management strategies you can ask for include asking for appreciated stock in your portfolio for charitable donation purposes.

Also, I will do best for those that want to give me cash, not securities, to invest. If you have appreciated asset in another account that you do not want sold, please do not transfer them to me. I have my own management methods, and if you transfer me assets "in kind" and give me discretion, I will liquidate them, and invest them where I see best advantage according to my model portfolio.

5) My track record is not audited. When my assets under management get large enough I will get my track record audited. Until then, you are free to look at my brokerage records for the last 10 years. They are on a password-protected area of my website. I will also prepare in the near term a file that fully reconciles, transaction by transaction, all of the trades and positions

6) I'm quirky. My original goal was to manage institutional assets. But every fund management consultant but I talked with loved my returns, but hated my management methods because they didn't fit their models easily. There are no other managers I know that mix value investing and industry rotation. Also, the fund management consultants did not like the fact that I by small, midsize, and large companies. They did not like that I buy foreign companies as well as US companies though this is a US-centric fund. Finally, they didn't like that sometimes I look like growth manager.

I usually run with 35 or so stocks. To some that seems overly diversified, to others overly concentrated. I run with 35 stocks because I do concentrate industries. If I ran with a smaller number the risk level would kick up markedly.

Also, I tend to run with about 10% cash. Most fund management consultants want me to be fully invested. I don't do that, because the cash allows me to be more flexible my investing. Also, since my portfolio concentrates industries, the cash allows me to ameliorate volatility. That is useful because most of the time my portfolio would not be considered a diversified portfolio of equities. To the fund management consultants, that raises the risk level, but my view of risk is not determined by the market benchmark, it is determined by margin of safety, industry prospects, and cheapness of the business.

I'm not in this business to please the fund management consultants. I'm in this business to make money for clients on a risk- and tax-adjusted basis. My experience with the fund management consultants was valuable, though, because it taught me that a large portion of the money management universe has its wings clipped, such that they can't make decisions off of pure economics.

7) I have managed my account as "long only" in the past. Any hedged version might not remove all of the equity market movement, or might overhedge. I have run hedging programs in the past as an institutional investor. That doesn't mean when I start to apply this in a retail context that I might not mess up once or twice. Please understand that hedging will not remove all risk, and in some cases, may increase risk. It is not a panacea.

8) Investing with me is only a partial solution to your full range of financial needs. My main goal is to make more money than the general equity market. For your risk assets, I plan to outperform the market, largely from only taking risks that are adequately compensated. For you fixed income assets, I am

offering a strategy that takes only compensated risks. You will need other advisors beyond me for now. I don't plan to consult on asset allocation, or retirement planning.

9) I am using Interactive Brokers as the Custodian and Clearing Broker. Their strong suit is not service. I am using them because I like their low costs, flexibility, and trading technology. I think I will be able to generate better returns for investors using them. That said, it means that I will have to help my clients with sign-up, and provide additional reporting beyond that which Interactive Brokers gives quarterly.

Fixed Income Strategy Issues

10) This is a new strategy with no track record. This is not to say that I have never used the elements of this strategy before; I have used them at prior employers to manage bond portfolios. But I have not done it for individual portfolios. I will be using ETFs and closed-end funds to implement this strategy, mainly to minimize transaction costs. In areas where there are no fixed income investments that trade like stocks, bonds will be used when they can be purchased with reasonable all-in transaction costs.

11) This strategy is very different than most fixed income strategies, because it pays little attention to the need for current yield, and no attention to what fixed income benchmarks are returning. It pays attention to where yields are relative to underlying risks. During times when underlying risks are significant, and yields are not enough to compensate, the strategy will focus on low-yield areas, and foreign currency/bonds. During times of panic, where certain fixed income classes are being thrown away, the strategy will look for opportunity and buy what's unpopular.

12) For average investors, this is not a normal or comfortable strategy. It will seem too conservative much of the time, and too risky when the market seems crazy. There are substantial possibilities for mis-timing on a strategy like this. I will try to reduce those risks by legging into positions when that seems wise, and by trying to be a little late, rather than early, but the success of this strategy can by no means be assured.

Summary

Well, that's all. I hope that you will still want to invest with me, but if not I understand. And I ask you to understand that I will do my best for you, though I know I have a lot of lessons to learn as I manage money for my clients. I have managed a lot of institutional money in the past, and done well at it, but it's a different thing when it is your strategy, and your name on the door.

Sincerely,

David