

ALPHA ADVISOR

The Alpha Advisor is designed as a guide to creating Alpha Wealth, Alpha Protection and Alpha Legacy

2010: Alpha System Special Report

Advanced Wealth Strategies . . . Adding Alpha to Your life

By Ken Stern, Managing Director

Recessions are part of the business cycle. When the next one comes up, which camp will you choose? The camp that is proactive, creating a plan to profit from the chaos? Or, the camp that reacts, intent on mere survival? High debt, changing technology, healthcare, and legislative changes, for instance, invoke fear in many, yet those fortunate (“evolved”) investors that have created a recession plan seek to profit from the uncertainty.

Will estate taxes, potential changes to income tax rates and future daughters- or sons-in-law become unintended beneficiaries of your estate? How can you be ensured that your legacy is protected and will become truly rewarding and limitless? The answers to these questions speak directly to the root of your Alpha plan. How well your plan is crafted, and how prudently you execute your plan could very well establish the foundation for the rest of your life. Make no mistake; the future does come with certain inherent risks. Yet, these risks can also present potential opportunities.

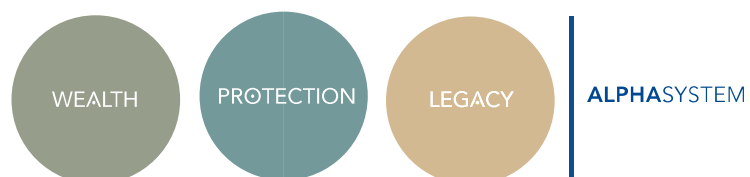
I have heard people state, “Wealth is about common sense.” If achieving wealth were so common, more people would have it. To truly try to reach the pinnacle of success, it would be wise to consider relying more on strategic disciplines and wealth planning strategies and less on emotion. You can change this practice. **THIS IS YOUR WAKE-UP CALL.** Make a conscious decision to follow a strategic, disciplined wealth management system . . . initiate your Alpha Plan.

At Ken Stern & Associates (KS&A), we believe in adding Alpha to your life. Alpha is a positive variance against the market or comparative benchmark. So let’s try to add some Alpha to your life!

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The **ALPHASYSTEM** is designed to help you plan for life’s unexpected events, as well as help you thrive through chaos. We have divided the system into three parts: Alpha Wealth, Alpha Protection and Alpha Legacy. It is designed to bring together the trilogy of investment management into one integrated approach.



Create wealth throughout varying economies and market cycles through proper investment management and wealth planning – add Alpha!; minimize asset vulnerabilities using the 5 Levels of Asset Protection as a guide; and define your legacy and work towards ensuring that your values and life are enjoyed by your family and loved ones for future generations.

ALPHA WEALTH

How many diets have you heard of? Hundreds? Despite the diversity, isn't the bottom line objective strikingly similar - to burn more calories than what you take in? Regardless of how much you know about wealth strategies, the truth seems to be fairly consistent. People make money on their money. But no matter how great your income or how much you save, true wealth, in my opinion, is made by compounding your efforts through smart investing.

Every day we are besieged with information. I liken most of this information to white-noise, as opposed to knowledge. The unsophisticated herd will hear this information, react to it, and make potentially grave errors in their life plan. This white-noise can range from an economic scare or a pandemic or the passing of a bill in Washington.

Five years ago, there were lines to buy houses. Advertisements were leading us to believe that you could not possibly lose on these real estate "investments". But where are those lines today? There are no lines. What has changed? Since the real estate peak, the population has grown, interest rates are down and so are the prices of the houses. Perhaps it's all emotion! Perhaps we should be buying when nobody buys, and sell when the mindless beast I call "the herd" buys with a wanton disregard for value!

Why is it that we have a "swine flu" pandemic and pork producing stocks go down? People do not get swine flu from eating pork! Nobody ever wishes for or welcomes a pandemic, act of God or any unforeseen event. However, when they do occur, you can decide whether or not you will suffer as a result, or seek to find opportunity, as may have been the case with the pork producers.

In every cycle in every economy there are bubbles and there are neglected sectors that offer deep value. Take gold for example; hot one day, neutral the next. Or, take foreclosures on hotels and say 'I'd like to buy a few'. Why the impulsive change? Primarily, it's the difference between information and knowledge. Information is usually reactionary and emotional; knowledge is where the self-actualized add Alpha. As information becomes more readily available through the Internet, cell phones, iPods, etc., I believe financial markets and the economy will move much more quickly and cause more individuals to react to short-term nuances. Lack of discipline is another adversity to this information overload, which may cause people to plan less, and focus less on maintaining their plan.

KS&A's three-part Alpha Wealth investment discipline embraces three macro investment strategies: Core, Tactical and Uncorrelated/Hedge. Core seeks to capitalize on both macro trends and deep value strategies both aimed at long-term growth. Tactical, for short-term opportunities; and a Uncorrelated/Hedge for asset classes that have very low, negative or no correlation to the stock market.

RULES TO ALPHA WEALTH

RULE ONE – EMBRACE THE ALPHA PLAN AND DO NOT REACT EMOTIONALLY

- Do not react to emotions – opportunity is embedded in chaos and is born through the foolishness of the herd. KS&A will help you establish your Alpha Plan and adhere to it. It's important to not react to the emotional fluctuations of short-term volatility, or knee-jerk investment volatilities. Your plan will be designed to help you thrive through every type of market fluctuation, i.e. up, down or neutral.

RULE TWO : FIND VALUE AT THE CORE, IN RISING STARS

- Build a core portfolio of investments with Rising Stars. Rising Stars are investments that we believe are trading slightly below what they are worth today and dramatically below their future growth potential. Look for increasing sales, earnings and cash flow at reasonable prices. Look for low debt and strong margins. Then seek to sell when either you are wrong (at a loss) or when valuation grows to historic levels. It will be difficult buying these “unsung heroes” because the stocks will likely be out of favor when you are buying them: real estate when it's unloved; stocks during a recession; or bonds during strong stock market rallies (inclusive of rising interest rates).

When selecting Rising Stars, never consider if the stock market is up or down – it does not matter. Nor does the record 52-week high or low of a stock or building. What matters is today's value. Consider a fresh look; a blissful ignorance of the past.

RULE THREE – PLAY THE HERD, TACTICALLY

- Capitalize on the Tactical segment of your portfolio. This segment is developed with a shorter time horizon than your Core portfolio (one year or less). Tactical investments specifically look towards incredible short-term, mispriced (either upside or downside) opportunities, which are due to short-term manias and panics of the foolishness of the “herd”. One strategy to create is a Top Gun investment system. Buy the sectors or industries that are performing the best universally, i.e. the 10 sectors of the Standard and Poor's 500 Index. Track the system at defined intervals, i.e. quarterly, adjust your holdings when a top gun investment is no longer performing, and add a new sector to take its place.

RULE FOUR - HEDGE THROUGH UNCORRELATED OR NEGATIVELY CORRELATED ASSET CLASSES

- Every portfolio should have a percentage of assets that are designed to provide an “absolute return”. Meaning the return is not correlated to the stock market, i.e. real estate and gold. Research the best strategies for market-neutral investing and find other investments that are not directly correlated to the stock market.

RULE FIVE – DON'T DIVERSIFY JUST TO DIVERSIFY

- Of course it's prudent to diversify, but know why you are diversifying and do it intelligently. If you buy different asset classes, such as international, domestic, large and/or small cap, etc. thinking that they are going to move up and down at different times, the last decade has proven otherwise (See "Exhibit A"). Asset classes are more correlated than previous decades. The rule for diversification should be to emphasize and overweight the asset classes that you believe have the highest probability of total return.

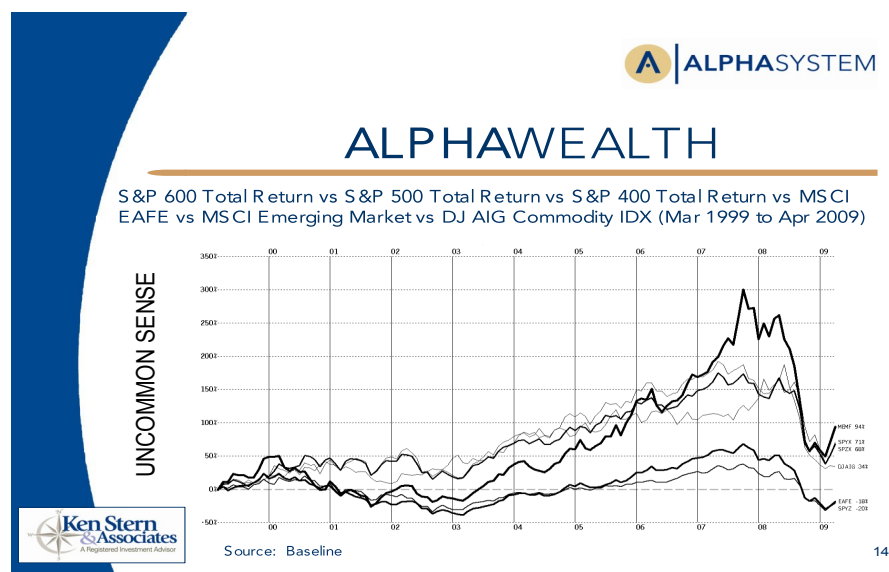


Exhibit A

RULE SIX - KNOW WHEN TO HOLD AND KNOW WHEN TO FOLD

- Selling stock is perhaps the least discussed, yet one of the most important aspects to successful investing. If an investment is trading at two times what it typically trades (based on price-to-sales, earnings and cash flow), consider selling. If you have held the stock and it has grown to three times its historical average, you better have a great reason to keep it and it better not be an emotional one!

If you bought a losing stock, the worst thing to do is to hold on to it and say, "I'll wait until it goes back up and then sell." If it does go back up, a very strong chance says it will go higher! And if the market is wrong and your investment sells lower, consider buying more. However, if the market is right and you were wrong, consider selling – even for a loss!

ALPHA PROTECTION

Many people fail to reach the pinnacle of their success every day because they allow themselves to become victims of life's unplanned events, i.e. a loss of a job, disability, a divorce, a health care expense or higher unanticipated taxes. Or, perhaps their assets were lost due to a recession, hyper inflation or a longer-than-expected retirement.

KS&A can help you facilitate your Alpha Plan for life events as well as develop a course action that can help you thrive through the chaos to avoid becoming a victim. A little planning and forethought can make a big difference between success and devastation. Be proactive with KS&A's 5 Levels of Asset Protection:

CREATE strategies to potentially help you thrive through chaos

INSULATE your family from unplanned risks

MAINTAIN assets during healthcare crises

COMMUNICATE through Alpha Board & Family Meetings

PROTECT your legacy for future generations

RULES TO ALPHA PROTECTION

RULE ONE: APPOINT YOUR BOARD OF DIRECTORS

- Successful companies have great Board of Directors guiding them, and so should your family. This Board should not be a burden or a direct cost. Start with your wealth advisor, money manager, tax advisor, and legal counsel. At the first meeting, clearly and pointedly state your goals, "You are all accountable and charged to provide solutions and ideas to make me more money, pay less taxes, and protect my life savings. Every year, I will challenge you to state clearly what you will do for me, how it will cause me to profit, or save and protect my assets. Perform and add Alpha and you can remain on the board."
- To this end, your attorney, specifically, must be more than a scribe. Documents are only valuable if they work to accomplish your objectives. Could your spouse remarry and shift assets if you are the first to die? Could your kids inherit assets and ultimately lose them to creditors, a spouse should they divorce, etc.?
- Determine if your accountant is providing tax preparation or tax planning. The distinction is critical. Tax preparation is much less valuable than a true, well thought through tax plan. A plan should incorporate income, capital gain, and estate tax planning. It should also address taxes now, later, and for your legacy.
- KS&A has prepared a useful Alpha Board & Family Meeting Agenda. Ask for yours today!

RULE TWO: YOU MUST CONSIDER ROTH

- In 2010, the laws governing the eligibility of Roth conversions (from traditional IRA and 401(k) assets) change dramatically. The ability to convert tax-deferred assets to a federally tax-free Roth could be valuable and is worthy of your attention. Call KS&A for a Roth calculator.

RULE THREE: HEALTHCARE

- Healthcare is a cost that must be mitigated. Plan through communication, documents and proper insurance. Communicate all your healthcare issues, clearly specify all your meds and doctors (names and phone numbers) on a Caregiver Instruction form, and talk to your loved ones. Have proper documents such as an Advanced Healthcare Directive and absolutely know your coverage and coverage limitations. Seriously consider adding certain insurance that will cover home healthcare, meal preparation, and the like.
- Protecting assets using advanced strategies is also a worthy discussion. Discuss advanced strategies with your Board of Directors.

RULE FOUR: RETIREMENT AND ABILITY TO GROW WEALTH

- Retirement is both an Alpha Wealth and Alpha Protection goal. Hold your Wealth Planner accountable. At all times, you should know what your short-, intermediate- and long-term wealth plans are. Will you be able to thrive during all markets; up, down and flat? Does your wealth plan provide a positive variance through all market cycles? Will you have Alpha?

RULE FIVE: TAKE OFF THE TRAINING WHEELS – ADVANCED STRATEGIES

- At some point, you may discover that your basic documents will only go so far in furthering your estate. When families desire additional protection and legacy planning, you may require advanced, and often irrevocable, planning documents. Explore the world of irrevocable trusts, corporations, partnerships and other entities with your legal counsel. The good news is that there are a plethora of documents, from foundations to Grantor Trusts, that may aid you on your path to achieving Alpha Protection.

ALPHA LEGACY

I never understood why anyone would procrastinate formulating their legacy and simply rely on the puzzle pieces to fall into place once they pass. It's unrealistic and unlikely that it will be done to their satisfaction. Your legacy is much more meaningful than your monetary distributions; it's your life. It's what you stood for.

Your Alpha Legacy is your responsibility. Think about how your loved ones will feel should you become incapacitated or pass if they don't know your personal wishes and/or desires? Would they know who to contact? Would they know where to find your passwords to personal email, on-line accounts, etc.? Would they know your fondest life memories? Or what you may wish to convey to friends and loved ones, your stories?

Think about the "box" of stuff your loved ones will inherit and have to go through. Do they know the story behind your necklace, your watch, your books? Do they know how you got your first job, where you met your spouse, what your thoughts were? These are the elements of your life that are unique unto you and truly priceless.

Take the first steps towards creating your Alpha Legacy:

- Complete the Five Wishes® booklet (Call KS&A today for your complimentary copy. Your family will appreciate this moral will.)
- Consider making gifts during your Family Meeting (and tell the respective stories).
- Complete a personal mission statement. And live your life to honor the statement.
- Complete a Caregiver Instruction Sheet and Document Locator. Be sure to include passwords.

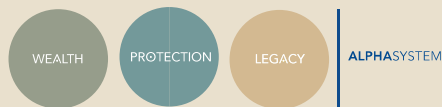
Contact KS&A today for specific legacy-planning workbooks, guidance and counseling.

ARE YOU READY FOR ALPHA?

- STEP 1: Develop a solutions-based model - the **ALPHASYSTEM**
- STEP 2: Implement the **ALPHASYSTEM**
- STEP 3: Annually rebalance your **ALPHASYSTEM** – Keep it updated with marriage license, birth certificates, other legal documents, etc.

Join our Money Revolution . . .
Get **ALPHATIZED!**

Contact Ken Stern & Associates to obtain
your complimentary **ALPHA ANALYSIS** today!



FOR ADDITIONAL
INFORMATION, PLEASE
CONTACT US:

Corporate Headquarters

Foremost Professional Plaza
12396 World Trade Drive
San Diego, CA 92128
P: 858.485.0404
F: 858.485.9036
Toll Free: 800.529.2884

Chicago Office

Two Mid America Plaza
Route 83 & 22nd Street #800
Oakbrook Terrace, IL 60181
P: 630.873.6326
F: 630.873.6327
Toll Free: 800.983.1999

Internet

Email Address:
info@kenstern.com
Website:
www.kenstern.com

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