

A Special Report

Harvest Advisors

From the Desk of John Mauldin

A ‘flexible’ approach for conservative investors Harvest Advisors’ Flexible Bond Program

After almost 14 years of leasing office space in right centerfield of the Texas Rangers Ballpark, I can say that I’ve watched a fair number of baseball games.

The game has changed a lot since I was a kid. One of the more unfortunate realities I’ve witnessed is that just about everybody swings for the fences. Not only do home run hitters get all the headlines, they also get paid the most money.

The problem with home run hitters, as you know, is that they strike out a lot. In the money management business, striking out is a habit you want to avoid like the plague.

The art of hitting -- making contact with the ball, advancing the runners, and hitting for average – is becoming a lost art and players like George Brett, Rod Carew, and Cal Ripken are few and far between.

It isn’t easy to find single hitters in the money management business either. Like baseball, the big bucks typically follow the money managers that put up gaudy, home run-like returns; not the steady, singles hitters.

If you’re an aggressive investor looking for an investment program that can deliver spectacular results, you might as well stop reading right now.

If, however, you’re a cautious investor that is more concerned about the return **OF** your principal than the return **ON** your principle, I think you may find this report very interesting. I want to introduce you to the Ichiro Suzuki of money management: a money manager who seldom strikes out, hits a ton of singles, and has an impressive track record of conservative growth.

The person I’m talking about is Tony Sagami of Harvest Advisors, an old friend who has a lot more in common with the steady hitting Ichiro Suzuki than just their Japanese heritage.

First of all, I want to tell you a few things about Tony before I tell you about his unique and very impressive money management service.

I’ve known Tony for almost 20 years and consider him to be one of my best friends. We’ve eaten a lot of sushi together over the years and I’ve come to respect him as a dedicated father and a trusted ally, as well as one of the sharpest money managers I know.



I first met Tony when he was running the money management business of a well known investment advisor and author. We regularly met at various investment conferences and became friends, usually finding local sushi dives to share our passion for Japanese food. I then persuaded Tony to come to work with me at my previous investment firm (before I left to start my own firm). Tony then went on to work for yet another well-known investment advisor, and we stayed in close touch.

Tony was one of the first to take advantage of computers and modeling. Lots of advisors use software and computer models, but Tony has a secret weapon: he developed and still owns his own trading software company -- Monocle Systems.

Monocle is a mutual fund and ETF analysis program that has been available since 1990 and has been used by thousands of sophisticated investors and money managers. Of course, nobody understands and knows how to use a piece of software better than the person who owns it. That's Tony's secret weapon and one of the reasons for his success.

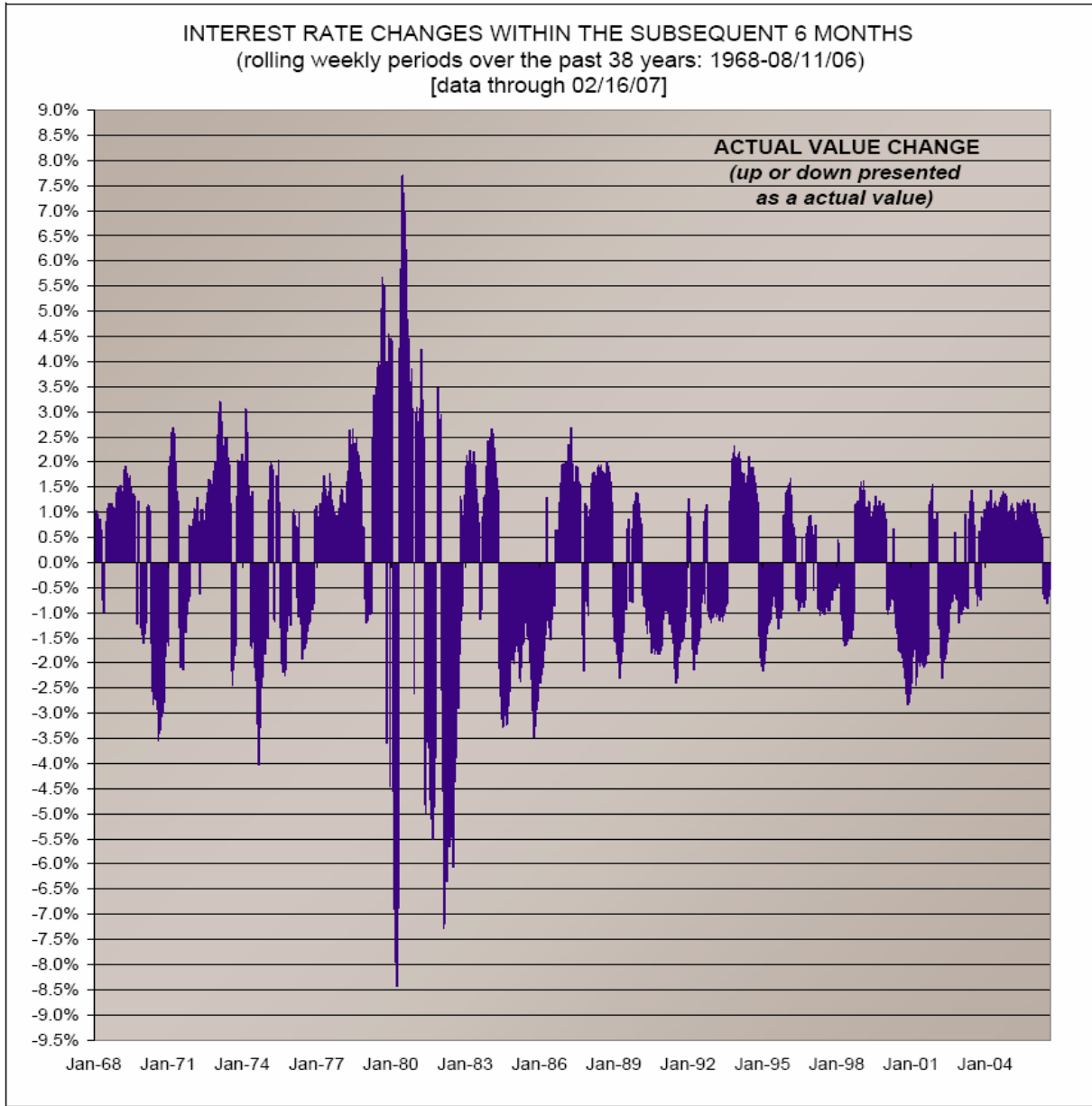
I have personally used Monocle and (somewhat) understand its potential for finding trends in the market. In the late 90's, Tony showed me the very bond timing system I am going to write about in a few paragraphs. It was part of a general market timing system. I was quite intrigued, and we communicated over the years about the markets and how they were trending.

Tony eventually moved to Montana and started to manage money directly. One of the first things he did was to separate his bond timing system from the rest of his programs and use it as a stand alone system.

Before we get into Tony's program, let's talk about why I am interested in a bond timing program. Normally, people think of bonds as dull and boring. The reality is the opposite. The bond market is actually quite volatile.

How much change and volatility are we talking about? Let's look at a study I have written about in the past by my friends at Crestmont Research (<http://www.crestmontresearch.com/>). The analysis shows that in the past 35 years (with a 2-month exception), there has not been a 6-month period during which interest rates somewhere along the yield curve did not change at least 50 basis points. Interest rates are much more volatile than most investors realize. As history demonstrates, almost half of the time, interest rates change by more than 1.5% (and over 25% in percentage terms) over all 6-month periods.

The graph below illustrates the actual percentage change of interest rates over a six month period somewhere along the yield curve. Even taking out the extraordinary high inflation period of the late 70's and early 80's (a period which we will hopefully not see in the future), interest rates can clearly be very volatile in both directions.



	Total	0.0% - 0.50%	0.50% - 1.0%	1.0% - 1.50%	1.50% - 2.0%	2.0% +
Periods	2,015	9	444	627	430	505
Percent	100.00%	0.45%	22.03%	31.12%	21.34%	25.06%

Note that the moves are both up and down.ⁱ Even with rates falling from 18% in the early 80's to 1% in the past few years, there was considerable volatility. Rates would drop and then rise for a period of time before falling again. Clearly bonds have not been a one way market.

In short, the bond market is a market which I think has a reasonable potential for being volatile in the future, and Tony's Flexible Bond Program offers an attractive way to participate in that market. It is uncorrelated with the stock market (as you would expect) and is a way to diversify your portfolio. So, let's look at the Flexible Bond Program.

Going back to our baseball analogy, Tony is a singles hitter. In the money management business, that means a couple things:

He manages risk more than he seeks returns. The very nature of the system means that large eye-popping gains are very unlikely. In fact, one of his system rules makes him exit a trade after he has made a certain percentage profit. When the system does make a trading mistake, he has a very rigid 3% stop loss. As Tony says,

“Risk is a four-letter word because we believe that the best way to build long-term wealth is to avoid losses.”

He manages money on an absolute return basis instead of relative returns. The name of the game in baseball is scoring runs while the name of the game in investing is delivering absolute returns -- not relative returns. In most Wall Street offices, losing 10% of your money is considered a victory if the S&P 500 is down 20%. Not so at Harvest Advisors. Again, quoting Tony:

“My goal is to give my investors a positive return every year. You pay your bills with cash --- not relative performance.”

Now, let’s talk about what Tony does that really makes him unique. He doesn’t invest in options, futures, derivatives, or even stocks. What he invests in is plain vanilla government bond mutual funds.

It is the funds he actually uses and how he invests in those bond funds that is very unique. In a nutshell, Tony is a bond timer, which means he attempts to anticipate moves in the bond market and allocate his portfolio accordingly; using the Monocle software I referred to as his signal source. We’ll look at the actual system in a second, but let’s first look at the mutual funds he uses: the ProFunds U.S. Government Plus Fund and the ProFunds Rising Rates Opportunity Fund. (These funds are part of a family of funds that are specifically designed for traders like Tony, and comply with all the rules and regulations.)

*** The ProFunds U.S. Government Plus Fund (GVPIX).** First in his arsenal, this fund is used when he gets a signal that he believes indicates that interest rates may fall meaning bond prices may rise. This fund is designed to *appreciate* in value as 30-year U.S. Treasury Bond prices *appreciate*. The U.S Government Plus Fund seeks daily investment results that correspond to 125% of the daily price movement of the most recently issued 30-year U.S Treasury Bond. However, typical long term bond funds, however, lose money – and potentially lots of it -- when interest rates are rising.

*** The ProFunds Rising Rates Opportunity Fund (RRPIX).** This fund is designed to *appreciate* in price as the **30-Year U.S. Treasury Bond** price *declines*. ProFunds Rising Rates does exactly what its name implies: it profits when interest rates are rising. When Tony’s trading model receives a signal that he believes indicates bond prices may fall (which means interest rates will rise), he will allocate up to 100% of the portfolio’s assets to the Rising Rates fund to attempt to capitalize on it. I should note that this fund has only been available for a few years. Up

until recently, you could only make capital gains on bonds when interest rates were falling. The Rising Rates Fund also incorporates leverage and on a daily basis tracks the performance of one and one-quarter times (125%) the inverse of the 30-year bond.

* Lastly, for periods when Tony's model doesn't generate a strong signal for either rising or falling interest rates, Tony will park your money into a money market fund.

Of course, figuring out when to buy and sell the right fund isn't simple or easy. Tony uses a sophisticated quantitative model that tells him when to buy U.S. Government Plus, when to buy Rising Rates, and when to sit in cash.

Essentially, in baseball terms, his Monocle based system makes him wait for just the right pitch. In investment terms, he looks for trades that have better odds of winning. Of course, even the best singles hitter strikes out every now and then, and the Flexible Bond Program has had and will have losing trades.

That being said, Tony's program doesn't trade very often, typically about 3-4 trades a year. And when Tony does make a trade, he doesn't stay in it very long. The average number of days invested in each of those trades was slightly more than a month - 38 days. That translates into roughly 45% of the year invested either long or short the bond market but roughly 55% of the year sitting in cash.

What I think is very interesting is the days invested is very different for winners than losers. The average number of days invested on winning trades is 47 days. The average number of days invested on losing trades is only 18 days, which means that the system doesn't waste any time admitting a mistake, cutting losses, and start looking for the next opportunity.

This brings up what some people might consider a flaw. It isn't uncommon for Tony to sit in the safety of cash for months at a time. Some investors don't appreciate paying a management fee to an advisor while sitting in cash. I don't see it that way. Cash is a position, and as you understand Tony's system, you start to appreciate the time you are in cash.

Without going into too much detail, what Tony has designed is a rules based trend following system. As most trend following systems which track volatile markets do, it generates lots of buy and sell signals. One of the rules that Tony has is that he ignores most of them. He only takes the signals that are generated in what he determines to be overbought or oversold conditions.

While that means he will miss a lot of potentially winning trades, it also means that, mathematically speaking, he will have a higher percentage of positive trades by just taking the signals at the extremes. Of course, only taking those signals in the overbought or oversold conditions does not guarantee a winning trade. All investors should be aware that just because a position is out of balance does not mean it cannot become even more unbalanced, which is why there is a stop loss in the system.

And that leads me to the next point. Below is a chart for Tony's program showing the returns since August of 2005. Prior to that time, this system was part of another program managed at another advisory service. While we could construct a hypothetical performance using the actual signals generated in previous management firms, I don't think it tells us anything that we can't see in the numbers generated by his firm (note we have adjusted the returns to be net of all fees).

Harvest Advisors Flexible Bond Program													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007	2.83%	4.62%	(0.38%)	(0.02%)	0.37%	2.51%	2.69%	0.68%	0.31%	(3.64%)	0.33%	0.62%	11.22%
2006	2.16%	(0.46%)	2.45%	(0.75%)	0.94%	(0.17%)	0.00%	0.33%	(2.23%)	0.30%	(3.06%)	4.02%	3.37%
2005								0.00%	0.11%	0.24%	3.37%	2.26%	6.08%

One of the main points we learn from these numbers is the relative randomness of Tony's program. By that I mean there is no way to predict when the program will make money or lose money. When the program is making money it does so in "clumps". Those are essentially periods when there is a trend in place.

Then there are other (sometimes long) periods where returns are essentially flat as the program is in a money market fund, which means that there is no clear trend and the program is on the sidelines waiting for an overbought or oversold signal. Then again, as in all trend following systems, there are periods where losses will occur. Along with a 3% stop loss rule, Tony uses a set of rules designed to manage risk. In essence, if and when the program incorrectly predicts the onset of a new trend, the program is designed to exit the trade. That does not mean that there could not be a series of such trades (see the fall of last year as an example), but simply that Tony attempts to limit those losses while allowing winning trades to "run".

That means that investors in Tony's Flexible Bond Program need to be patient and view the investment on a long term basis. As I will show in a minute, there is absolutely no way to know in advance when a trend will start or how long it will run. You can only look at previous times in the markets when extreme conditions existed and realize that eventually these conditions changed.

Recommendation: I think that Tony's Flexible Bond Program is a great fit for three types of investors:

1. Investors who want a way to participate in the volatility of the bond market without having to make a one way bet. With interest rates being near their 25 year lows, there is not a lot of room left for a rise in bond values as rates can only fall so low. Tony's program has the potential to benefit from either rising or falling interest rates.

2. Investors that already own a large bond portfolio and that would like a possible hedge against rising interest rates.

3. Investors looking to diversify their portfolio away from too much stock market exposure. This program has close to zero correlation to the S&P 500 and can help smooth out the peaks and valleys of an equity-heavy portfolio.

I think this program meets the criteria for an absolute return portfolio with the potential to benefit in both rising and falling markets. If you decide to invest, you should plan to be in the program for at least two years.

Basic Details on the Flexible Bond Program

The management fee is 2.25% paid in arrears on a quarterly basis. Clients will open an investment advisory account with CMG Capital Management Group, Inc. and Harvest Advisors will act as a sub-advisor for the purpose of enacting trades according to their system. CMG will provide ongoing account monitoring and investment advisory services, as well as ongoing due diligence on Harvest Advisors. CMG pays Harvest Advisors a portion of the fee as a sub-advisor and shares a portion with my investment advisory firm, Millennium Wave Advisors, LLC (MWA) as well. I should note that CMG is responsible for individual client suitability and will help you decide whether the Harvest Advisors program is appropriate for you and what allocations you should make to the Harvest Advisors program, as well as to my other recommended managers and programs.

The minimum account size that CMG accepts for the Harvest Flexible Bond Program is \$100,000. Accounts are domiciled at Trust Company of America (“TCA”). TCA will serve as your account custodian and will also provide internet access to your account.

If you feel that this program might be suitable for your portfolio and you would like to speak with an account representative from CMG immediately, please feel free to call 800-891-9092. CMG can help you learn more about the Flexible Bond Program, answer your questions, and help you open an investment account. CMG can also be reached by email at ars@absolutereturnstrategies.net or by fax at 610-989-9092.

Click here to go directly to CMG’s Absolute Return Strategies website:
<http://www.cmgfunds.net>

IMPORTANT INFORMATION ABOUT THIS REPORT

This interview was used with permission from John Mauldin. John Mauldin is the President of Millennium Wave Advisors, LLC (MWA), which is an investment advisory firm registered with multiple states. John Mauldin is a registered representative of Millennium Wave Securities, LLC, (MWS), a FINRA registered broker-dealer. MWS is also a Commodity Pool Operator (CPO) and a Commodity Trading Advisor (CTA) registered with the CFTC, as well as an Introducing Broker (IB). Millennium Wave Investments is a dba of MWA LLC and MWS LLC.

IMPORTANT DISCLOSURE INFORMATION

If you have a net worth of \$1.5 million and below, to receive this report you have filled out a webform for additional information. At that time you were provided with links to the ADV – Part 2 and Schedule F for CMG and Millennium Wave Advisors, LLC (MWA) (disclosures on the investment advisors) as well as delivered the Solicitor’s Disclosure Statement by my firm.

If you have a net worth of \$1.5 million and above, to receive this report you were referred by Altegris Portfolio Management, Inc. (APM) and MWA to CMG acting as joint-solicitors, and at that time you were provided with links to the ADV Part 2 and Schedule F for CMG, MWA and APM as well as delivered the Solicitor’s Disclosure Statement by my firm.

In addition, CMG has included a links to important disclosure documents below.

CMG Capital Management Group, Inc. ADV

<http://www.absolutereturnstrategies.net/cmghdocs/advcmgcapgmt.pdf>

Millennium Solicitor Disclosure Statement

http://www.absolutereturnstrategies.net/cmghdocs/millennium_solicitor.pdf

Millennium Wave Advisors, LLC ADV

<http://absolutereturnstrategies.net/cmghdocs/advmillennium.pdf>

Altegris Portfolio Management, Inc. ADV

<http://absolutereturnstrategies.net/cmghdocs/advaltegris.pdf>

Please Remember: This Special Report contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Investors should consult with a financial advisor before investing. Information presented herein is subject to change without notice and should not be considered a solicitation to buy or sell any security.

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, or equal to either Harvest

Advisors Flexible Bond Program (the “Program”) performance results reflected or any corresponding historical index. The historical index performance results are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of the Program meets, or continues to meet, his/her/its investment objective(s). It should not be assumed that Program account holdings will correspond directly to any comparative index. Please review the above Program discussion as to the Program description, objectives and the underlying securities in which it invests. The Program performance results do not reflect the impact of taxes.

For reasons including variances in portfolio account holdings, variances in the investment management advisory incurred, market fluctuation, the date on which a client became a Program investor, and account contributions or withdrawals, the performance of a specific CMG client's account may vary substantially from the indicated Program performance results.

In the event that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise CMG immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised or undertaken by CMG or Harvest Advisors) will be either suitable or profitable for a client's or prospective client's portfolio.

ENDNOTES

ⁱ U.S. Treasury securities across the yield curve ranging from three months to 20+ years; weekly data (Friday) from the H.15 release; the change represents the maximum increase or decrease from the base period across the subsequent six months; five basis points are added to the range to reflect variations during the week.

Crestmont Research (www.CrestmontResearch.com)

ADDITIONAL NOTES AND RISK FACTORS

1. The management fee is 2.25% paid in arrears on a quarterly basis. Clients will open an investment advisory account with CMG, and Anchor will act as a sub-advisor for the purpose of enacting trades according to their system. CMG will provide ongoing account monitoring and investment advisory services, as well as ongoing due diligence on Anchor. CMG pays Anchor a portion of the fee as a sub-advisor. Millennium Wave Advisors, LLC (MWA) and Altegris Portfolio Management, LLC (APM) may act jointly or separately as solicitors for CMG. If registered with a net worth of \$1.5 million and above, APM and MWA are acting as joint-solicitors for CMG. In the event APM refers you to CMG and you open an account through them, CMG will pay APM 85 basis points on the first \$25 million of assets introduced to CMG by APM. On assets introduced to CMG by APM greater than \$25 million, CMG shall pay APM 50 basis points on such amounts. CMG will also pay MWA 1/3 of the net fees CMG receives.

If you registered with a net worth of \$1.5 million and below, MWA acts as sole solicitor and CMG shares an ongoing referral fee equal to 1/3 of the advisory fee received by CMG with my investment advisory firm, Millennium Wave Advisors, LLC.

It should be noted that CMG is responsible for individual client suitability and will help you decide whether the Anchor program is appropriate for you and what allocations you should make to the Anchor program, as well as to other recommended managers and programs.

The details of these fee arrangements are more fully described in the solicitor's disclosure documents that were provide to you at the time of solicitation and available in the link provided below.

2. The program uses ProFunds, Rydex and Direxion sector and index funds, as well as a money market account. There is no obligation for Anchor Capital to look for other funds to use. Please see risks from the underlying fund families prospectuses at the links provided below:

ProFunds: <http://www.profunds.com/ProFundsInfo/Content/DownloadProspectus.fs>

Rydex Funds: http://www.rydexfunds.com/service/prospectuses_reports.shtml

RISKS OF FUNDS:

Please note that the Harvest Advisors program can use a wide variety of index and sector mutual funds from the three fund families mentioned above. Below are some of the common risks that are inherent in such funds.

Market Risk – Due to market conditions, the value of the Fund’s investments in equity securities and equity derivatives, such as futures and options contracts, may fluctuate significantly from day to day. This volatility may cause the value of your investment in the Fund to decrease.

Active Trading Risk – A significant portion of the Fund’s assets come from investors who take part in certain strategic and tactical asset allocation programs. The Fund anticipates that investors who take part in these programs may frequently redeem or exchange shares of the Fund, which may cause the Fund to experience high portfolio turnover. Higher portfolio turnover may result in the Fund paying higher levels of transaction costs and generating greater tax liabilities for shareholders. In addition, large movements of assets into and out of the Fund may negatively impact the Fund’s ability to achieve its investment objective.

Derivatives Risk – The Fund’s use of equity derivatives such as futures, options, and swap agreements to pursue its investment objective may expose the Fund to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. These risks may cause the Fund to experience higher losses than a fund that does not use derivatives.

Leveraging Risk – The more the Fund invests in leveraged instruments, the more this leverage will magnify any losses on those investments. Since the Fund’s investment strategy involves consistently applied leverage, the value of the Fund’s shares will tend to increase or decrease more than the value of any increase or decrease in its benchmark. Leverage will also have the effect of magnifying tracking error risk.

Market Segment Risk – The Fund is subject to the risk that the over-the-counter market may under-perform other segments of the equity market or equity markets as a whole.

Medium Issuer Risk – In comparison to securities of companies with large capitalizations, securities of medium capitalization companies may have more price volatility, greater spreads between their bid and ask prices, significantly lower trading volumes, and cyclical or static growth prospects. Medium capitalization companies often have limited product lines, markets or financial resources, and may therefore be more vulnerable to adverse developments than large capitalization companies.

Swap Counterparty Credit Risk – The Fund is subject to credit risk on the amount it expects to receive from swap agreement counterparties. If a swap counterparty defaults on its payment obligations to the Fund, this default will cause the value of your investment in the Fund to decrease.

Tracking Error Risk – The Fund’s investment adviser may not be able to cause the Fund’s performance to match that of the Fund’s benchmark, either on a daily or aggregate basis. In addition, because the Fund is tracking the performance of its benchmark on a daily basis, mathematical compounding may prevent the Fund from correlating with the monthly, quarterly, annual or other period performance of its benchmark. Tracking error may cause the Fund’s performance to be less than you expect.

Trading Halt Risk – If a trading halt occurs, the Fund may temporarily be unable to purchase or sell options or futures contracts. Such a trading halt near the time the Fund prices its shares may limit the Fund’s ability to use leverage and may prevent the Fund from achieving its investment objective.

Early Closing Risk – The Fund is subject to the risk that unanticipated early closings of securities exchanges will result in the Fund being unable to sell or buy securities on that day. If an exchange closes early on a day when the Fund needs to execute a high volume of securities trades late in a trading day, the Fund might incur substantial trading losses.

Short Sales Risk – Short sales are transactions in which a fund sells a security it does not own. If the security the Fund sold short goes down in price between the time the Fund sells the security and closes its short position, the Fund will realize a gain on the transaction. Conversely, if the security goes up in price during the period, the Fund will realize a loss on the transaction. The risk of such price increases is the principal risk of engaging in short sales. The Fund may also be subject to expenses related to short sales such as borrowing and margin accounting maintenance costs, which may negatively impact the performance of the Fund.

3. Comparison to the NASDAQ-100 and S&P 500 Index (“Index”) is for comparative purposes only and does not imply any similarity between the composition of the model portfolio and that of the Index. Anchor’s strategy is to pursue its objective without investing directly in the securities included in the Index, or by investing in the same proportion that those securities are represented in the Index.

4. Performance Disclosure – CMG Capital Management Group, Inc. (“CMG”) is an SEC registered investment adviser located in the Commonwealth of Pennsylvania. Harvest Capital Advisors, LLC. ("Harvest") is a registered investment adviser located in the State of Montana. CMG has entered into a sub-advisory agreement with Harvest. Harvest serves as the sub-advisor to the strategy. CMG serves as the advisor.

Performance represents an actual account owned and managed by Harvest and are net of CMG's maximum investment fee of 2.25%. Individual returns may vary substantially from those presented due to differences in the timing of contributions and withdrawals, account start dates, and actual fees paid. This presentation is for informational purposes only and no guarantee is made as to the accuracy of the information provided by Harvest Advisors. Data from the Nasdaq 100 and Lehman High Yield Bond indices was compiled/calculated using PerTrac Financial Solutions, LLC. It should not be assumed that CMG account holdings will correspond directly to any such comparative index.

Information pertaining to Harvest's advisory operations, services, and fees is set forth in Harvest's current disclosure statement, a copy of which is available from Harvest upon request.

Performance from August 2005 to present is based off actual client accounts and is net of the current fee for the program, 2.25%. The performance results shown include the reinvestment of dividends and other earnings. For various reasons, Harvest's clients may have experienced investment results during the corresponding time periods that were materially different from those portrayed in the portfolio. Comparison of the Flexible Bond Program to any other indices is for illustrative purposes only and the volatility of the indices used for comparison may be materially different from the volatility of the Flexible Bond Program due to varying degrees of diversification and/or other factors. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will be profitable. The Flexible Bond Program may involve above average portfolio turnover which could negatively impact the net after-tax gain experienced by an individual client. Harvest does not make any representation that the strategy will or is likely to achieve returns similar to those shown in the performance results in this presentation.

For information pertaining to the registration status of Anchor please refer to the Investment Adviser Public Disclosure web site, <http://www.adviserinfo.sec.gov>. For additional information about Harvest, please refer to Schedule F and Form ADV, Part 2. Please read the brochure carefully before you invest or send money.