CAPITAL MANAGEMENT GROUP, INC.

Alternative Investment Strategies

2007 Recap

Financial markets started 2007 strong, primarily due to emerging markets, only to end the year with investor pessimism dominating headlines. The early part of 2007 saw the appetite for risk from investors continue from 2006, with major asset flows into emerging markets, specifically the BRIC nations (Brazil, Russia, India and China) leading the markets higher. The markets were able to shrug off a retracement in March led by cooling emerging markets only to rally into August when housing and sub-prime concerns took center stage. The second half of the year focused investor attention on the housing bubble and the ripple effects of sub-prime mortgages on major investment banks, bond insurers and the international banking system. Gold and oil led commodity markets higher throughout the year while agricultural commodities were in strong demand in the second half of the year. As 2007 came to a close, the Federal Reserve was working to communicate about risks in the economy while attempting to remain independent. Fed Chairman, Ben Bernanke, still very much in the shadow of Alan Greenspan, had his hands full maintaining the balanced dialogue expected of the Fed with the very real risks of stagflation and recession.

Looking back we were pleased with our 2007 Outlook forecast. In short, we anticipated low single digit returns for equities, a continuation of the long-term commodity bull market, we favored commodity rich countries, energy and alternative energy, we were positive on Asia (ex Japan), and we felt that volatility would increase as investors refocused on risk. We were a little early on our recession call and felt that High Yield default rates would have moved higher (they did not as default rates remained at record lows) yet risk came into focus and price volatility picked up handsomely.

Table 1.
2007 Market Returns & Pricing
As of December 31, 2007

	Returns		Pricing
S&P 500	5.49%	3 Month T-Bill	3.24%
Russell 2000	-1.57%	10 Year Treasury	4.02%
Wilshire 5000	5.62%	Gold	$833.75
DJIA	8.89%	Crude Oil	$95.95
NASDAQ Comp.	9.81%		
MSCI EAFE	8.62%		
Lehman High Yield	1.88%		
DJ-AIG Commodity	11.08%		
Managed Futures	0.32%		

Source: PerTrac Financial Solutions

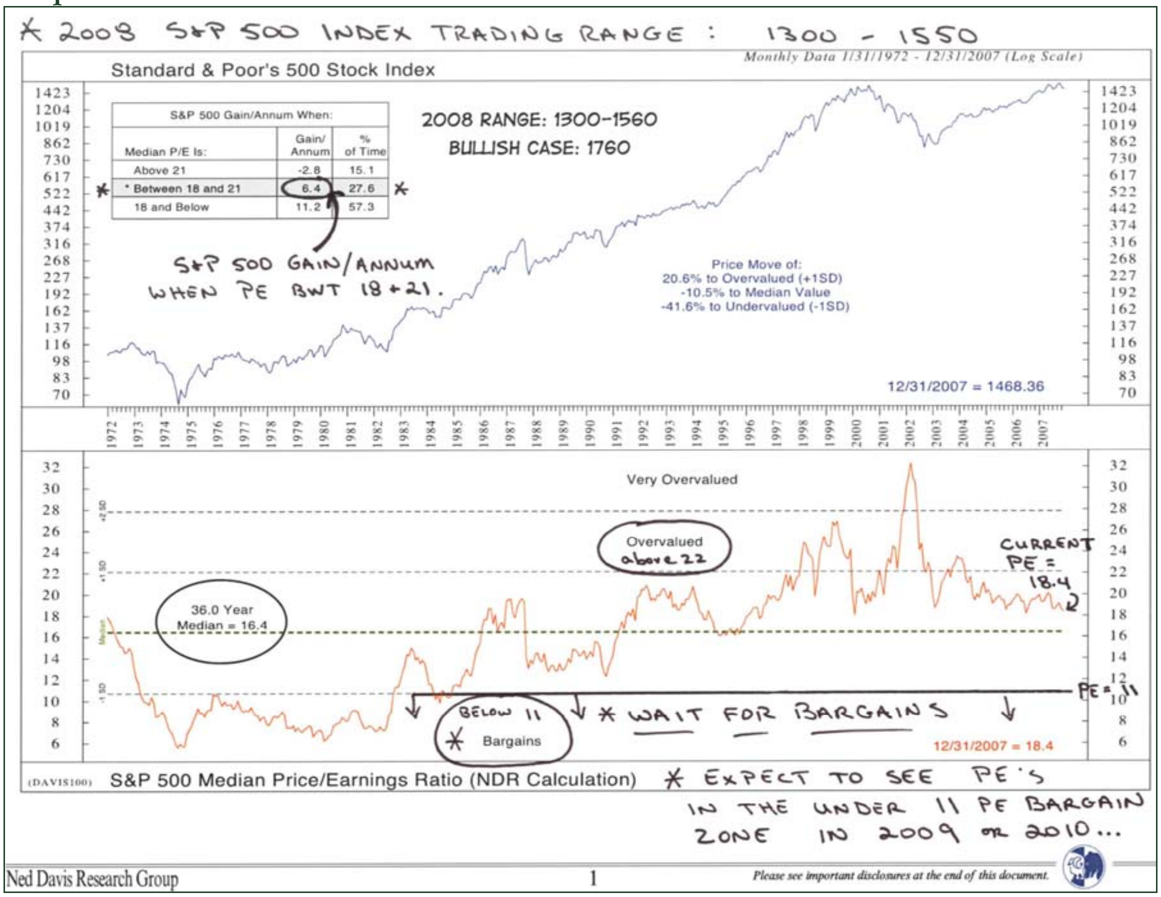
2008 Outlook

2008 will prove to be another challenging year as equity markets will likely be range-bound and investors will need a trading mentality to generate absolute returns. Our long-term secular theme remains intact: The U.S. equity markets are in a long-term bear market cycle that started in 2000 and will continue until valuations come back in line (this is happening, however, we are not at attractive buy levels just yet). There will be short-term bull and bear periods within the long-term bear cycle. The last short-term bull move (which lasted over 5 years – a record) has ended. We believe the S&P 500 Index is in a trading range of 1300 to 1550 (see graph below) and that it is important to trade investor sentiment extremes: buy when fear is great as measured by bearish sentiment extremes tied to logical support levels, and sell when confidence is great tied to logical resistance levels).

While equity markets remain in a longer term bear market, we don't believe the market is likely to have a "crash" this presidential election year, although the first three weeks of January had panic written all over it. Election years are generally positive (a lot of promises), and we have a very accommodative Fed ("don't fight the Fed"). The combination of a government stimulus package and Fed rate cuts should help markets recover in the second half of the year, sometime around the middle of the third quarter is our guess. We see continued volatility and a U.S. equity market that finishes the year with low single digit returns. You must be a trader to survive. We see big problems that will take years to unwind, yet we believe a severe market correction is more likely in 2009 or 2010. The first two years of a presidential election cycle are historically poor, and the market forces that are garnering attention (sub-prime, housing bubble, credit crunch) presently will not impact the financial systems with full magnitude until they flow through to all corners of the global economy.

Recession: we believe it will be mild but inflation will continue moving higher down the road, threatening growth. We expect to see significantly higher default rates and bankruptcies in 2008, providing fertile ground for distressed investors. We expect commodities to continue to appreciate as they are still in the early/to middle innings of a long-term bull market. Commodities will remain susceptible to sharp corrections during the year but will continue to trend up on strong demand from emerging markets, primarily China. Currently, there are far too many energy bulls and we are looking for a correction. We remain very bullish on alternative energy, water and water related companies. We see long-term bond yields moving higher and a significant correction in the high yield bond market tied to a pick up in default rates typical of a recession. There is too much pessimism on the U.S. Dollar. We believe the surprise trade of the year will be a sizable move higher in the U.S. Dollar. Finally, we see a generational buying opportunity coming in 2009 or more likely in 2010 tied to the continued unwind of massive system wide leverage. As reflected below in Graph 1, we think it will pay to be patient and wait for bargains as PE ratios drop below 11.

Graph 1.



Global Macro Themes

Sub-Prime Mortgages and the Housing Bubble – Not over yet

The losses stemming from sub-prime mortgages will continue to have ripple effects on the market as major banks, insurance companies and other market participants disclose how much leveraged exposure they actually have. While many institutions have taken write-downs on their positions, the effect of step-ups in 2006/2007 sub-prime ARMs (Adjustable Rate Mortgages) and increasing delinquency rates will have to work its way through the system, very likely resulting in another wave of write-downs. Furthermore, recent disclosure of sub-prime holdings by several Chinese banks is a sign of things to come.

Compounding these risks from the sub-prime meltdown is a nationally deflating housing market in the U.S. that continues to work off 10 months worth of inventory. The housing market has yet to reach bottom, but has shown signs that it may be in sight as homebuilders near a bottom and the inventory of unsold homes continues to work out. The recent economic outlook released by the National Association of Realtors shows a bottom in existing home sales, housing starts and residential construction is probable around the second quarter in 2008. Similarly, both existing and new home prices are expected to stop their decline in the second quarter. Although mid-2008 may prove to be a bottom in the housing decline, it is our belief that it will be a long, slow recovery for the U.S. economy.

Table 2.
U.S. Economic Outlook: 2007 – 2009 Housing Forecast

	2007				2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Housing Indicators - Percent Change (%)--Year Ago										
Existing Home Sales	-6.4	-10.7	-13.8	-20.6	-23.6	-8.8	7.4	17.0	16.0	11.0
Housing Starts	-31.4	-21.3	-23.7	-23.0	-22.6	-25.8	-17.3	-11.2	-5.2	-0.7
Residential Construction	-16.5	-16.5	-16.5	-18.7	-18.8	-18.7	-15.3	-9.4	-5.4	-2.1
Median Home Prices - Percent Change (%)--Year Ago										
Existing Home Prices	-1.4	-1.3	-1.5	-4.8	-5.3	-1.8	2.0	2.6	3.4	3.5
New Home Sales	4.5	-2.1	1.6	-5.6	-4.2	-1.3	0.1	3.1	4.0	4.2

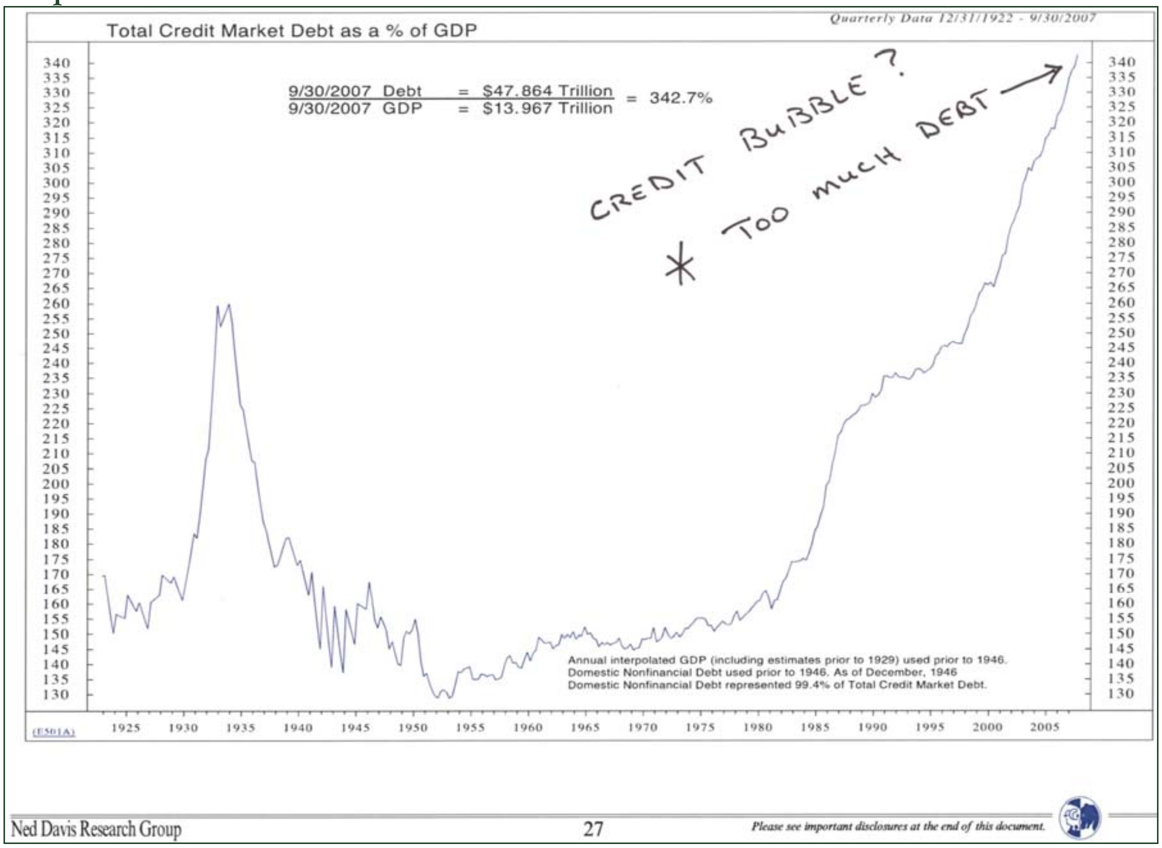
Source: National Association of Realtors®

The greater economic effect will be more enduring as banks tighten lending standards, ratings agencies amend their models and credit becomes more expensive for small to mid-sized companies. The lack of liquidity has already hurt the commercial paper market and the buy-out frenzy of 2007 has ground to a halt. Tighter credit conditions will put some deals, such as Cerberus' acquisition of Chrysler and Sam Zell's takeover of the Tribune, at risk, especially if the economy enters a recessionary period that threatens their ability to service the massive amounts of debt that have been used to fund the acquisitions. It is likely we will see consolidation within the private equity world as the next couple of years will determine who the real buyout winners were in 2007. Although the Federal Reserve, Congress and the President will continue to present stimulus proposals, rate freezes, etc., ultimately it will take time and new regulatory vigor for the economy to work through a banking crisis that bears an eerie resemblance to the Great Depression.

U.S. Economy – A mild recession

As we are completing this outlook, the probabilities further point to the U.S. having already entered into a recession. While it is likely that a recession in the U.S. will be mild, the prospects for recovery are not clear. We believe that U.S. markets will bottom out sometime in the third quarter of 2008. While the latter part of the year should be more positive as growth picks up again, the lagging effects of the housing bubble and the severe impairment of credit markets will hamper a market recovery. However, that recovery may be short-lived as the prospects for growth beyond 2008 are not clear. The U.S. is heavily indebted, both publicly and privately. As of September 2007, total credit market debt as a percentage of U.S. GDP was an astounding 342% as shown in Graph 2 below.

Graph 2.



Credit market debt has skyrocketed since the turn of the century and has proven to generate less GDP growth than in previous decades. Leverage is not working the way it has in the past and the U.S. will have to face the reality of diminishing returns from debt financing (see Graph 3 below). The next decade will bring a generational shift in the mindset of Americans, from indebted consumers to a more pragmatic balance between spending and saving. As retirement is in sight for the Baby Boomers (approximately 1/3 of the population), the urgency to meet their funding needs will drive subsequent generations to save more for their own retirement needs. Furthermore, economic growth will likely not be the result of leverage but rather a focused effort to develop new technologies. Investment in alternative energy is the largest opportunity for the U.S. to increase growth and provide new jobs as the manufacturing jobs continue to move overseas.

Graph 3.

* LEVERAGE IS NOT HELPING GROWTH ...

DIMINISHING RETURNS FROM DEBT FINANCING BY DECADE 12/31/1949 - 9/30/2007			
Date Range	**Decade Change in GDP (billions $)**	**Decade Change in Debt (billions $)**	**GDP/Debt**
12/31/1949-12/31/1959	248.0	337.6	0.73
12/31/1959-12/31/1969	491.4	752.1	0.65
12/31/1969-12/31/1979	1655.9	2785.2	0.59
12/31/1979-12/31/1989	2923.8	8562.3	0.34
12/31/1989-12/31/1999	3935.2	12471.7	0.32
12/31/1999-09/30/2007*	4447.8	22553.4	0.20
** Most recent data available*			
Ned Davis Research, Inc.			*T_621.RPT*

Europe & the UK – A mirror image of the U.S.

The European markets will experience much of the same pain the U.S. markets will incur as the effects of the housing bubble in the U.S. and sub-prime exposure did not fully manifest themselves in 2007. Furthermore, as is often the case, the European central banks are late in reacting to fundamental economic weaknesses and will, therefore, be less likely to recover with the same trajectory as the U.S. market. Housing bubbles in most of Europe (with the UK and Spain the most inflated), strong currencies, and weak exports will cap growth prospects in much of the EU. One of the few positives continues to be the convergence of Eastern Europe and the recent liberalization of borders should further support the relocation of many labor intensive businesses to the East.

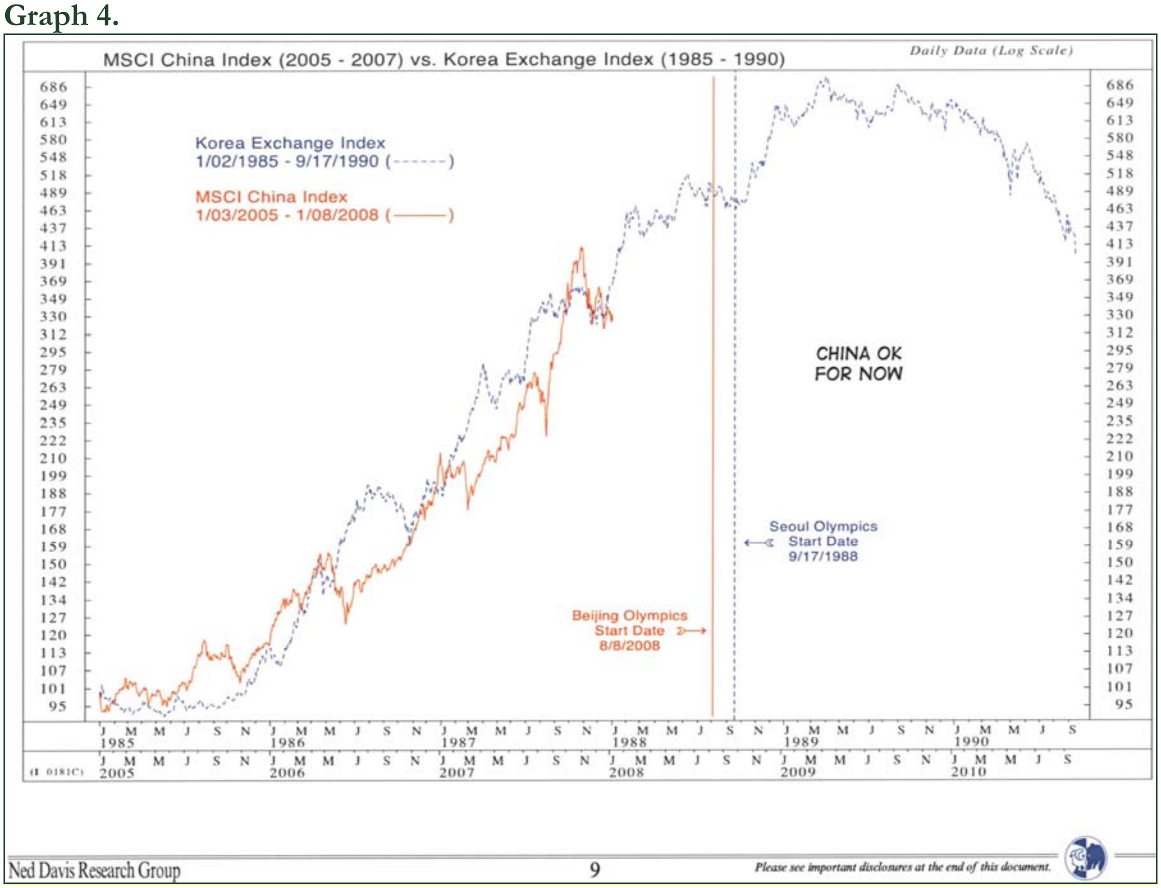
Emerging Markets Convergence –Ready to join the G7

The past couple of years have seen emerging markets at the forefront of global economic growth. Their success has been indicative of what Thomas Friedman refers to as "the flattening of the world". While the merits of globalization have propelled emerging markets to new highs, primarily in the BRIC nations, they have also created a more interdependent world economically, socially and politically. In many ways, 2008 may be an inflection point as emerging markets will show to what extent they can weather the market turmoil in developed markets and whether they should be added to the G7. Undoubtedly, emerging markets will be affected by a slowdown in the U.S. and Europe, but many of these countries are in a better macroeconomic position then ever before and the likelihood of bond defaults and currency revaluations is much lower than in past cycles. In the past, Western nations bailed out many Third World economies, but it appears that roles have reversed as sovereign wealth funds and financial institutions from China, Singapore and the Middle East have come to the rescue of U.S. banks. Much like the scrutiny of the CNOOC's (Chinese National Offshore Oil Company Ltd.) takeover bid for Unocal and the Dubai ports deal, politicians will debate these events in the context of national security. In a constantly converging world, there is no denying the importance of the emerging economies and their inclusion into the club is more vital than ever if the G7 is to maintain any significance.

China – No Hard Landing, Yet

Much has been written about the interdependent relationship of the Chinese and U.S. economies, the currency and trade imbalances and the importance of the U.S. consumer to Chinese growth. Market commentators have speculated about a hard landing in China for several years now and while the probabilities may point to this being the year; China will avoid the hard landing. However, the Chinese will have to deal with very real economic and social challenges in the next several years including reform of corporate governance, accounting transparency, massive non-performing loan inventories, dreadful environmental policies (including water shortages), massive urbanization, healthcare and the very real prospect of political reform. The Chinese will put on a great spectacle for the Beijing Olympics before the international community truly sees the greater issues that have yet to be fully appreciated and the market may well follow a similar trajectory to that of the South Korean markets after the 1988 Seoul Olympics. In the three years leading up to the Seoul Olympics, the Korean market had a cumulative return of approximately 390% but in the two years after the Seoul Olympics, the Korean market lost 14%. In the past three years, the Chinese market has returned approximately 200%. It will be interesting to see if the Chinese will follow a similar path. (Graph 4).

Graph 4.



U.S. Outlook

While the market effects of the housing bubble have been quite evident, the U.S. economic slowdown is just beginning to shape the Presidential election. Much like the election in 2002, the economy will overshadow the war in Iraq as the main topic of debate and will decide which candidate will be the next U.S. President. Historically, election years have been bullish years for equity markets, especially if the incumbent party wins. In years when the incumbent loses, market returns have been slightly negative. The confluence of a Democratic victory and poor economic indicators further support the historical probabilities.

The prospects of recession have become very real for the first half of 2008 as GDP growth will likely be flat to slightly negative through the first two quarters of the year. The Federal Reserve will continue to cut rates into mid-2008 before the economy will show signs of recovery, with a potential growth rate of 2% or 3% by the third or fourth quarters. Core inflation remains under control but headline inflation has been a cause of concern for average Americans as food and gasoline prices have both seen sharp increases.

A slowdown should alleviate some pressure from rising oil prices and decrease demand. In addition, giiven the bullish sentiment extreme on energy today we expect to see the price of decline to a range of $80-$85. At which point we will likely become more aggressive again on energy and alternative energy. Risks to the upside are primarily geopolitical with potential for supply disruptions in Nigeria, a newly revitalized Russia playing oil politics and the continuation of political disorder in the Middle East. Earnings growth will slow across the economy but large cap multinationals are positioned to outperform as they stand to benefit from a weak dollar and stronger exports.

With respect to sector performance, utilities should outperform in the first half of the year with Fed easing as a tailwind and low beta sectors like healthcare and consumer staples performing during market retracements. Energy continues to be attractive over the long term, but in the short term is susceptible to a pullback as oil prices retreat and growth slows. Financials will continue to de-lever and provide trading opportunities but will still have to navigate more mortgage landmines over the course of the year. The consumer discretionary and industrial sectors bear the largest risks as a consumer slowdown has become inevitable. We continue to hold our long-term bullish stance on the alternative energy sector and water related industries.

International Outlook

We remain constructive but cautious on international markets and expect an environment where picking the winners in emerging markets rather than the broader indices will yield greater performance. Western Europe will spend 2008 in much the same situation as the United States as the Europeans must face their own housing bubbles (most notably in the UK and Spain), the credit market illiquidity and slower growth prospects as a strong euro and British pound will dampen exports. Eastern Europe continues to show strong growth as the convergence between East and West will bring economic valuations into line. In December 2007, the EU included nine more countries (Poland, Slovakia, Hungary, the Czech Republic, Slovenia, Malta, Latvia, Lithuania and Estonia) in its Schengen zone, creating an area of passport-free travel that spreads over 4,000 kilometers (over 2,500 miles) and 24 countries. The extension of the Schengen zone is expected to boost business, tourism and also provide cheaper skilled labor for western European countries.

Emerging markets will continue to outperform developed markets but will be hard pressed to match the returns of the past four years as political tensions in many regions could derail growth. China and India will have more risks to growth potential than in past years and have a number of domestic economic challenges ahead of them including increased public deficit spending and domestic equity market liberalization. India faces instability on its western border, not just in the disputed Kashmir region, but in Pakistan as the country attempts to form a government compromise between pseudo-democratic parties and President/General Pervez Musharraf. China will have to tackle internal pressures for democracy, thousands of daily protests and the increasing scrutiny of the international community. South Korea is poised to outperform in Asia as a change of government has brought to power the pro-business president, Lee Myung-bak. Tighter credit conditions in the U.S. and Europe will hurt more capital dependent countries like Turkey and Brazil. Africa and the Middle East continue to develop their capital markets and the emergence of new ETF products focusing on those regions should help develop financial markets in those regions. The Middle East presents the greatest geopolitical risks with a resolution to the Palestinian/Israeli conflict more distant than ever, Lebanon being hard pressed to build a government without Syrian interference, and Iran maintaining a steadfast position on the right to nuclear enrichment. Between Afghanistan and Iraq, the U.S. remains deeply overextended in the region and has limited political and economic capital to support a military invasion of Iran. Despite saber rattling on both sides, 2008 will see greater emphasis on diplomatic solutions to the nuclear standoff.

We continue to favor emerging Asian economies, specifically South Korea, China and Malaysia over other emerging markets and see little opportunity in Japan as the country attempts to find stable leadership, politically and economically. Amongst developed nations, Canadian, Australian and German markets should outperform.

High Yield – Fixed Income

While treasury yields should be range-bound between 3% and 5% (see chart below for 2006-2007 comparison), we believe 2008 will bring large trading opportunities in high yield bonds as default rates are likely to rise significantly off of historical lows. A number of metrics support the probabilities:

- In the last high yield cycle, default rates surged from 1.37% to 7.09% before the recession started in March 2001. A similar rise preceded the recession in July 1990. Currently, Moody's Investors Service quantifies the default rate at 0.96% through November 30, 2007.
- Although business confidence currently has dropped to recessionary levels (most pessimistic level in seven years), historically, a recession is not necessary for default rates to surge. The record of past cycles clearly shows that default rates head higher before GDP growth turns negative.
- There has been an abundance of low rated deals issued in the past four years and the loss of readily available bank capital (as a result of the credit crisis – tighter lending standards) will lead to more companies getting caught off-sides.

- We are closely monitoring the distressed universe (as measured by the Merrill Lynch U.S. High Yield Distressed Index). January 2008 opened with 184 distressed issues (distressed issues are defined as non-defaulted bonds with spreads greater than 1,000 bps yield over Treasuries). That is up from a count of 159 in December and 95 in November. The amount of distressed issues has doubled in the past two months and has increased for six consecutive months, from a low of 22 in July 2007. The current count is the highest reading since December 2003's count of 190. Currently 10.42% of the issues in the HY Master II Index are distressed, up from a low of 1.15% in March 2007 (Fridson Vision Research).

Moody's forecasts a rise in default rates to 4.20%. If we are correct in our expectation of a mild recession, it is likely that default will be higher; potentially doubling Moody's forecast to around 8%. The resulting volatility could mean a price swing of 15% from high to low with a recovery to follow. Wall Street on average is forecasting a 4-5% return for high yields in 2008 and Martin Fridson, a perennial all-start HY analyst, believes a low single digit total return is probable and indicative of the sort historically observed during the rising-default-rate phase of the high yield cycle. We believe a significant opportunity exists in 2008 for investors who can be successful trading the volatility.

Table 3.
U.S. Treasury Yield Curves
Year End %

	2006	2007
3 Month	5.02%	3.36%
6 Month	5.09%	3.49%
2 Year	4.82%	3.05%
5 Year	4.70%	3.45%
10 Year	4.71%	4.04%
30 Year	4.81%	4.45%

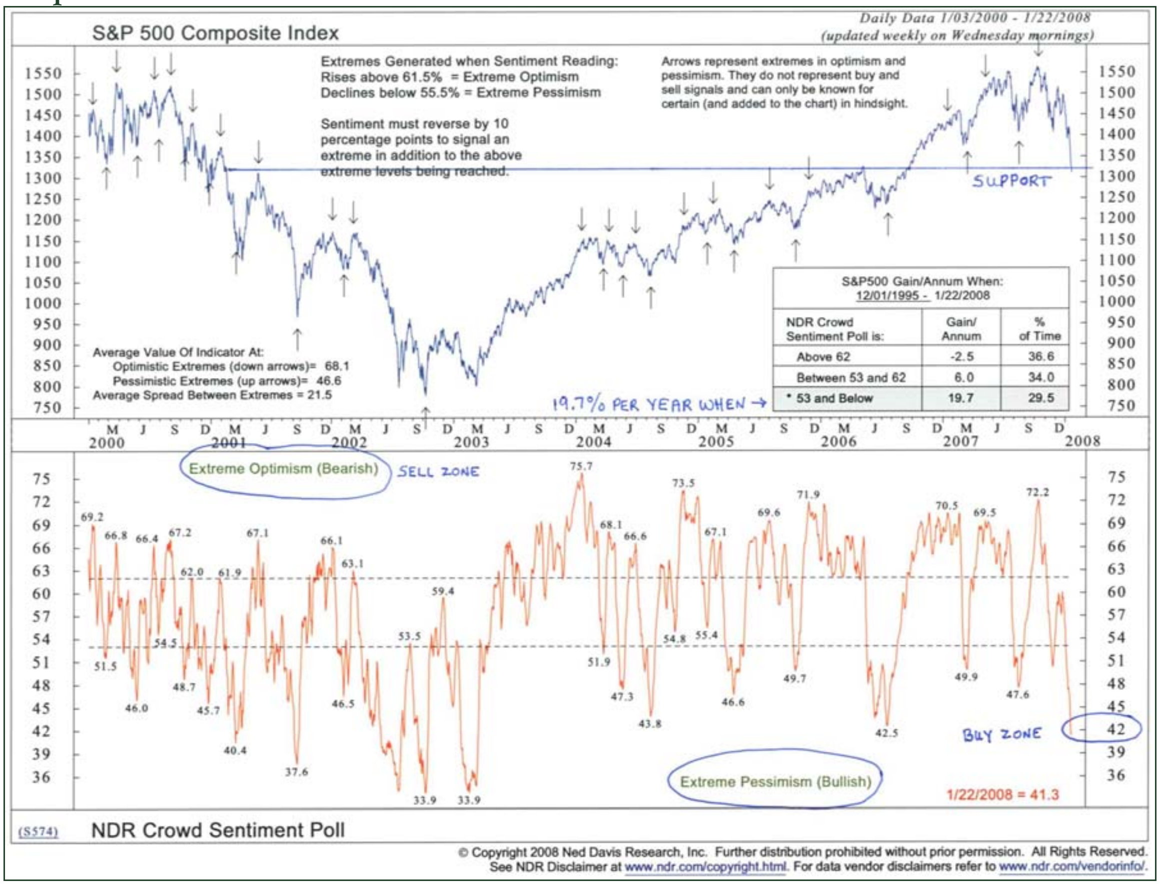
Source: U.S. Department of Treasury

Conclusion – "You must be a trader to survive"

To be successful in 2008, investors will require a trader's mentality: selling at times of extreme optimism and buying at levels of extreme pessimism. The graph below reflects investor sentiment and illustrates how these extremes have corresponded to the movement of the S&P 500 in the past eight years. When investor sentiment is at a level of extreme pessimism, the subsequent performance per annum is 19.70%. It takes a strong internal constitution to buy in the face of fear and sell in the face of pure confidence, yet we believe that to survive a long-term bear market cycle it is important to trade these extremes.

We think we are in a long-term bear market and there are plenty of bad things left in the cycle as credit problems move beyond sub-prime and into areas such as commercial mortgages and debt used to finance private equity deals. A once in a generation buying opportunity at significantly lower levels but it might not come until 2010. In the meantime, "you must be a trader to survive".

Graph 5.



CMG Capital Management Group, Inc.

150 North Radnor Chester Road – Suite A 150

Radnor, PA 19087

610-989-9090

www.cmgfunds.net

IMPORTANT DISCLOSURE INFORMATION

CMG Capital Management Group, Inc. ("CMG") is a Registered Investment Advisor located in Radnor, Pennsylvania. CMG and its representatives are in compliance with the current filing requirements imposed upon SEC registered investment advisors by those states in which CMG maintains clients. Accordingly, this publication should not be construed by any consumer and/or prospective client as CMG's solicitation to effect, or attempt to effect transactions in securities, or the rendering of personalized investment advice for compensation. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this document will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained herein serves as the receipt of, or as a substitute for, personalized investment advice from CMG (or any of its related entities), or from any other investment professional. To the extent that a reader has any questions regarding the applicability of any of the content to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. A copy of CMG's current written disclosure statement discussing our advisory services and fees is available for review upon request.

Ned Davis Research, Inc. Disclosure:

The data and analysis contained herein are provided "as is" and without warranty of any kind, either expressed or implied. Ned Davis Research, Inc. (NDR), any NDR affiliates or employees, or any third party data provider, shall not have any liability for any loss sustained by anyone who has relied on the information contained in any NDR publication. All opinions expressed herein are subject to change without notice, and you should always obtain current information and perform due diligence before trading. NDR, accounts that NDR or its affiliated companies manage, or their respective shareholders, directors, officers and/or employees, may have long or short positions in the securities discussed herein and may purchase or sell such securities without notice. NDR uses various methods to evaluate investments which may, at times, produce contradictory recommendations with respect to the same securities. When evaluating the results of prior NDR recommendations or NDR performance rankings, one should also consider that NDR may modify the methods it uses to evaluate investment opportunities from time to time. For this and for many other reasons, the performance of NDR's past recommendations is not a guarantee of future results.