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There Are Hedge Funds... and There Are Hedge Funds

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Recent articles about hedge funds in several national publications have piqued public interest in this increasingly hot investment. Since 1999, assets under management in hedge funds have quadrupled to nearly $800 billion as investors have flocked to these funds in search of better returns and some protection from the increasingly wild stock market gyrations. One good friend has recently stated, highly appropriately, we believe: "The stock market is behaving like a deranged ping-pong ball." The old fashioned "long-term" holds are usually not a good practice at present.

Keith Gilabert, founder of Capital Management Group in Valencia, California, has stated in response to several of these articles: "While it may be true in a number of instances that some hedge funds aren't delivering much diversification to reduce portfolio risk, this is not the case with Capital Management Groups funds." He points out: "At any given time we have from 50 to 75 stocks in our portfolios and we are always widely diversified in a number of industry groups and sectors. Furthermore," he stated, "every stock position is protected by a 'zero-cost' (or better) collar." He is quick to point out that a "collar" is a way of protecting the portfolio against loss through the use of option puts with a strike price at the purchase price of each stock. The puts are paid for by the sale of call options on the same stock, thus creating "zero-cost" collars. He noted: "If a stock should fall below its purchase price, having the put in place is like having zero-deductible fire insurance on a home... there is immediate and full protection against any loss of value."

To illustrate, **Gilabert** pointed out how this strategy worked after September 11, 2001. The market fell by 33 percent but the Capital Management Group portfolios did not lose money because of the puts that were in place. When the market bottomed after it reopened, **Gilabert** noted: "Capital Management Group was able to take advantage of the bounce and made more than 19 percent for investors, net of fees, by the end of the year. We use this strategy, without exception, in all market conditions on every stock we own. Our average net annual return for our investors for the past seven years has been somewhat more than 27 percent."

Gilabert stressed: "There are hedge funds and there are hedge funds... some are good and some of them aren't. It's important to use good judgment when selecting a fund. Do research before investing."

He said Capital Management Group prefers to call their funds "performance based funds" instead of hedge funds. The reason, he pointed out, is that if Capital Management Group fails to make a profit for its investors, all fees are entirely waived. He also noted there are never any sales charges, commissions, loads, or back-end fees with any Capital Management Group fund.

As **Gilabert** discussed, is it also important to select a fund that offers protection for assets. To that end one should always determine that client funds are held by a large financial institution such as a UBS Financial Services, Merrill Lynch, etc. and protected by SIPC. "Do not ever put money in a fund where monies are privately held and not protected," he emphasized. Also, he said: "Insist on regular and complete monthly statements which document every holding in the portfolio."

With market uncertainties as they are today, including the terror threats we have all learned to live with, **Gilabert** believes it makes good sense to have solid bottom-side protection for investment portfolios. A well-managed fund of this nature is a sound way to provide this protection, he stressed.

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Contact information:
John Farrar
(661) 212-2559
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Keith Gilabert
(661) 510-7777
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