



SUPPLEMENTAL RISK DISCLOSURE INFORMATION

Alternative Investments
Integrity. Knowledge. Experience.

When considering alternative investments, such as hedge funds and managed futures, you should consider various risks including the fact that some hedge fund and managed futures products use leverage and other speculative investment practices that may increase the risk of investment loss, can be illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees, and in many cases the underlying investments are not transparent and are known only to the investment manager.

With respect to alternative investments, such as hedge funds and managed futures, in general, you should be aware that:

- Returns from some alternative investments, including hedge funds and managed futures, can be volatile
- You may lose all or portion of your investment
- With respect to single manager products the manager has total trading authority. The use of a single manager could mean a lack of diversification and higher risk
- Many alternative investments that include hedge funds and managed futures are subject to substantial expenses that must be offset by trading profits and other income. A portion of those fees is paid to Altegris
- Trading may take place on foreign exchanges that may not offer the same regulatory protection as US exchanges

With respect to an investment in a hedge fund or managed futures fund, you should be aware that:

- There is often a lack of transparency as to the fund's underlying investments
- With respect to hedge fund of funds, the fund's manager has complete discretion to invest in various sub-funds without disclosure thereof to you or to us. Because of this lack of transparency, there is no way for you to monitor the specific investments made by the hedge fund or to know whether the sub-fund investments are consistent with the hedge fund's historic investment philosophy or risk levels
- A hedge fund of funds invests in other funds and fees are charged at both the fund and sub-fund level. Thus the overall fees you will pay will be higher than you would pay by investing directly in the sub-funds. In addition, each sub-fund charges an incentive fee on new profits regardless of whether the overall operations of the fund are profitable
- There is no secondary market for fund interests. Transfers of interests are subject to limitations. The fund's manager may deny a request to transfer if it determines that the transfer may result in adverse legal or tax consequences for the fund

A hedge fund's Offering Memorandum or a money manager's Disclosure Document describes the various risks and conflicts of interest relating to an investment and to its operations. You should read those documents carefully to determine whether an investment is suitable for you in light of, among other things, your financial situation, need for liquidity, tax situation, and other investments.

Keep in mind that the past performance of any investment is not necessarily indicative of future results. You should only commit risk capital to any Investment Product. Alternative investment products, including hedge funds and managed futures, are not for everyone and entail risks that are different from more traditional investments. You should obtain investment and tax advice from your advisers before deciding to invest.



2002 Down for the Count

A Letter from the President of Altegris



Alternative Investments
Integrity. Knowledge. Experience.

JANUARY 2003

Dear Investor,

2002 was the year of the triple play. The NASDAQ, the S&P 500, and the Dow all suffered 3-year losing streaks (the first time this has happened to the S&P and the Dow since WWII). Only 3 out of the Dow's 30 members gained last year. The value of U.S. stocks declined by nearly \$3 trillion in 2002 (well, \$2.84 trillion, but who's counting). And **hedge funds scored their 3rd straight year outperforming equities** (more on that welcome bit of news later).

After the devastation caused by the market crash in the spring of 2000, it's hard to even imagine how things could possibly have gotten worse. In fact, very few predicted it could.

Speaking with what hindsight shows us to be over-optimism, Wall Street gurus such as Edward Kerschner of UBS Warburg and Abby Joseph Cohen of Goldman Sachs predicted that 2002 would be the year the market turned around, if only moderately. (A year ago, my stock broker friends began to call me about "blue chip stocks" going for "bargain prices" that were "sure to come back" in 2002. What is a "blue chip stock" anymore: IBM?) They couldn't have been more wrong. Instead, what investors experienced was what turned out to be the S&P 500's worst year since 1974 and the Dow's worst since 1977, and a year for the NASDAQ that was almost as bad as 2000 (how was that even possible?). None of the analysts' 2002 predictions foresaw that things would get *this* bad (see Table One).

TABLE ONE

STOCKS: NOWHERE TO HIDE

For fans of stock investment strategies, 2002 proved that there are times when it's hard to know where to safely stash your dollars. All three major U.S. stock indices—the S&P 500, the Dow, and the NASDAQ—were down for the year. Even investors who chose to diversify into foreign stocks found little joy. Many international stock indices suffered a nasty "ripple effect" from the troubles of the U.S. stock market, which were compounded by regional problems such as Japan's struggles against deflation, Germany's floundering economy (Germany's DAX stock index suffered its worst drop since the Great Depression), and the fiscal strain of flood relief measures in Central Europe. The table below makes it painfully clear that stocks were not a good place to hide in 2002.

Total Rates of Return	DEC. 2002	4Q 2002	2002	3 YEAR	5 YEAR	10 YEAR
U.S. INDICES						
S&P 500	-6.03%	+7.92%	-23.37%	-40.11%	-9.30%	+102.03%
NASDAQ Composite	-9.69%	+13.94%	-31.52%	-67.18%	-17.91%	+90.44%
DJIA	-6.23%	+10.08%	-16.75%	-28.35%	+4.13%	+149.51%
FOREIGN INDICES						
CAC-40	-7.90%	+10.31%	-33.74%	-48.57%	+0.84%	+62.72%
NIKKEI	-6.91%	-8.57%	-18.62%	-54.69%	-43.78%	-49.33%
DAX	-12.88%	+4.46%	-43.94%	-58.36%	-31.83%	+82.10%
FTSE	-5.49%	+5.87%	-24.47%	-43.14%	-23.16%	+36.04%

Source: International Traders Research (ITR), an affiliate of Altegris Investments. Past performance is not necessarily indicative of future results.

The NASDAQ, S&P 500, DJIA, CAC-40, NIKKEI, DAX, and FTSE indices are unmanaged and are generally representative of certain portions of the U.S. and foreign equity markets. These indices are mentioned for illustrative purposes only and are not indicative of any fund's performance. An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees which might be charged to a similar fund and which might materially affect the performance data presented.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. THERE IS RISK OF LOSS WHEN INVESTING IN MANAGED FUTURES OR FUNDS.

Diversification didn't help much either. All ten of the S&P 500's industry groups fell this year, and the average domestic equity fund went down -22.6% according to Morningstar. (It's hardly surprising that preliminary data points to the first year ever of net redemptions in equity funds.) **The lesson to be learned from market activity this year is that some market environments are not, and I repeat, are not suitable for buy-and-hold equity strategies.**



:: A Year for Alternatives

2002 may have been a miserable year for most traditional investments (with 10-year Treasury bonds offering some refuge for investors), but it was a good year for more flexible, non-correlated alternative investments (see Chart One and Table Two). Hedge funds, while barely creeping into negative territory as a group at -1.19%,¹ still outperformed equities for the third straight year. Small wonder that assets continued to pour into hedge funds in 2002, while other investments, such as sluggish mutual funds, experienced an ebb in money under management. As a collective, another alternative investment group—commodity trading advisors—also pounded out strong returns, ending up +15.22% for the year.² Past performance, however, is not necessarily indicative of future results. Alternative investments like hedge funds and professionally managed futures products involve significant risks and the value of an investment may go down as well as up.

Hedge Funds Hold Their Own

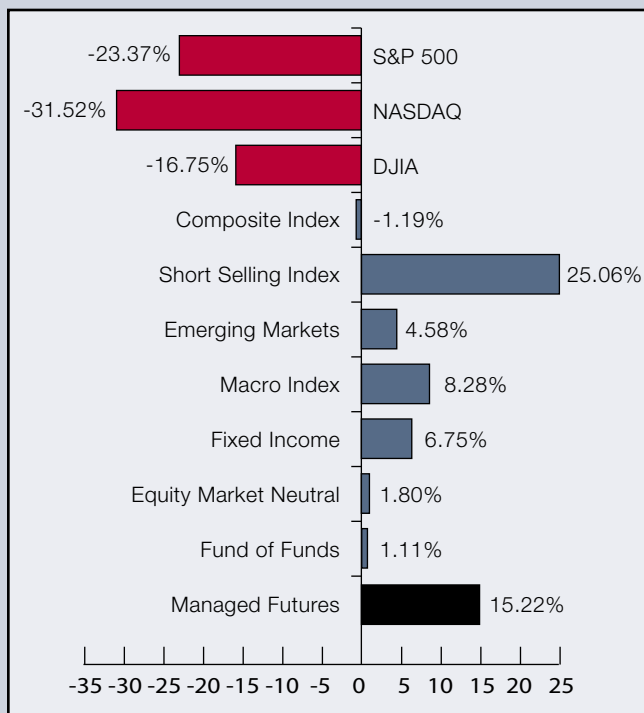
Market conditions in 2002 were favorable for a number of hedge fund strategies that were able to capitalize on trades on the short side of the market. Given the sinking stock market, it's hardly a surprise that one of the top-performing hedge fund subcategories for 2002 was short-selling hedge funds, which were up a strong +25.06% for the year. Macro hedge funds (funds that trade directional moves up or down in international stocks, currencies, indices, interest rates, and other financial instruments) were up +8.28%. Fixed income hedge fund strategies were able to cash in on record-low interest rates to produce a +6.75% return overall. Hedge funds that focused on emerging markets were up +4.58% overall, with the Eastern European emerging markets subsector up +26.52%. Both equity market neutral funds and funds of hedge funds were up moderately for the year: +1.80% and +1.11%, respectively.³

Managed Futures Forge Ahead

In contrast with their effect on the equity markets, last year's volatile market conditions and political tensions fueled, rather than fizzled, strong gains for commodity trading advisors. For example, tensions in Venezuela and Iraq caused a rise in crude oil prices, a civil war in the Ivory Coast affected cocoa prices, and weak harvests drove up grain prices for the year. The effect on the bond market of policy decisions by the U.S. Federal Reserve regarding interest rates, investors' run to protect their assets with investments in precious metals such as gold and silver, and the rallying of major currencies such as the British pound, Swiss franc, and Japanese yen against the U.S. dollar also provided opportunities for professional commodity trading advisors.

CHART ONE

PERFORMANCE COMPARISON - YEAR 2002



Note: Stocks offer substantially greater liquidity and transparency than the alternative investment products noted and may be less costly to purchase.

Source: Equities: International Traders Research (ITR), an affiliate of Altegris Investments; Hedge Funds: Hedge Fund Research, Inc., © HFR, Inc. [15 January 2003], www.hfr.com; Managed Futures: ITR Premier 40 CTA Index. Past performance is not indicative of future results. There is risk of loss when investing in managed futures or funds.

¹ Hedge Fund Research, Inc., © HFR, Inc. [15 January 2003], www.hfr.com.

² International Traders Research (ITR). ITR is an affiliate of Altegris Investments.

³ Hedge Fund Research, Inc., © HFR, Inc. [15 January 2003], www.hfr.com.

The NASDAQ, S&P 500 and DJIA indices are unmanaged and are generally representative of certain portions of the U.S. and foreign equity markets. These indices are mentioned for illustrative purposes only and are not indicative of any fund's performance. An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees which might be charged to a similar fund and which might materially affect the performance data presented.

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TABLE TWO

POLISHING UP, POLISHING OFF: ALTERNATIVES CONTINUE TO OUTPERFORM EQUITIES

Total Rates of Return	DEC. 2002	4Q 2002	2002	3 YEAR	5 YEAR	10 YEAR
EQUITIES						
S&P 500	-6.03%	+7.92%	-23.37%	-40.11%	-9.30%	+102.03%
NASDAQ Composite	-9.69%	+13.94%	-31.52%	-67.18%	-17.91%	+90.44%
DJIA	-6.23%	+10.08%	-16.75%	-28.35%	+4.13%	+149.51%
ALTERNATIVES						
Hedge Funds						
Fund Weighted Composite Index	+0.17%	+2.82%	-1.19%	+8.54%	+46.24%	+242.40%
Short Selling Index	+2.55%	-7.76%	+25.06%	+83.51%	+37.97%	+24.97%
Emerging Markets	+0.65%	+4.63%	+4.58%	+3.06%	+7.68%	+197.72%
Macro Index	+5.01%	+2.63%	+8.28%	+17.98%	+47.36%	+263.17%
Fixed Income	+1.84%	+1.98%	+6.75%	+21.85%	+32.46%	+90.84%
Equity Market Neutral	+0.92%	+0.21%	+1.80%	+24.44%	+44.33%	+148.45%
Fund of Funds	+0.77%	+1.39%	+1.11%	+8.15%	+29.78%	+133.68%
Managed Futures						
ITR Premier 40 CTA Index	+6.09%	-2.18%	+15.22%	+34.34%	+52.60%	+139.43%

Note: Stocks offer substantially greater liquidity and transparency than the alternative investment products noted and may be less costly to purchase.

Source: Equities: International Traders Research (ITR), an affiliate of Altegris Investments; Hedge Funds: Hedge Fund Research, Inc., © HFR, Inc. [15 January 2003], www.hfr.com; Managed Futures: ITR Premier 40 CTA Index. Past performance is not indicative of future results. There is risk of loss when investing in managed futures or funds.



:: 2003: Sink or Swim?

Nearly *everyone* had hope for a stock upswing in 2002—no one wanted to believe it could get worse. (A list of over 20 Wall Street analysts published in the January 6th, 2003 edition of *Barron's* shows that *none* of them, not even the most bearish analysts, even came close to predicting the 2002 drop in the DJIA or the NASDAQ.) Analysts this year are a more cautious mix of bulls and bears (still leaning toward bulls), because no one can—or rather, no one wants—to believe that the markets will drop even lower. If the markets do drop for a fourth straight year, it'll be the first time since 1929-1932—and we all know that *that* wasn't pretty.

I'm not going to waste your time or mine with my own market predictions. I'm not really interested in speculating what the stock market might do in the coming months, although I do have my opinions. What I *am* interested in is finding investments for my clients that have the potential to do well in a variety of market conditions. **Regardless of which group of analysts is right—the bulls or the bears—there are investments that have potential to make money in either environment, and it's my job to help you find them.** As 2002 has demonstrated, there is immense power in being able to short the market when conditions merit it, and a big advantage to having access to markets such as futures, whose ups and downs are generally tied to factors other than those that affect the stock market. Alternative investments do involve risks that may not be suitable for all investors, but for qualified investors, you may want to consider an allocation to an alternative investment such as a hedge fund or a managed futures product to help your portfolio survive whatever 2003 has in store.

We've been making a lot of changes at Altegris Investments over the past year to ensure that our clients get access to some of the top alternative money managers available. For example, we added new staff to our investment product research team as part of an effort to expand the number of quality alternative investment products we make available to our clients. Other hedge fund and commodity futures products have been added throughout the year. (For qualified investors,

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many of our inventoried products are available for preview in the "Members" section of our website, www.managedinvestments.com.)

A number of the hedge fund and managed futures products offered by Altegris did extremely well last year, given the market conditions, and held up favorably in comparison with their peers. While I think you know as well as I do that an investment's past performance may have little or no bearing on how it may look a year, or three years, or ten years out (such as stock in WorldCom in 1999 vs. in 2002), for qualified investors it may be worth your time, not to mention your money, to investigate some of the products we offer.

What I'm getting at here is that my firm is dedicated to helping our qualified clients find alternative investments that they think might be appropriate for their portfolios. It's all we do. We're not a stock firm or an investment bank that decided to ride the wave of burgeoning interest in hedge funds. We don't tuck these investments in on the side around our other offerings. We're an exclusive investment boutique that caters to clients who qualify for, and have interest in, unique investment products that have the potential to hold up well—regardless of which pundit proves to be right about the markets.

If you're already one of our investors, we appreciate your commitment to alternatives, and encourage you to investigate some of the new investment talent we've made available to our clientele this year by giving your Altegris Account Executive a call or by visiting us online.

If you're still considering whether or not to make an investment in alternatives, or want to discuss our offerings, give me and my staff a call at **800.828.5225**.

Hoping the economy *does* recover,



Jon C. Sundt
President
Altegris Investments

The estimated performance figures presented here are based on information from sources that Altegris Investments believes to be accurate. However, Altegris has not and cannot verify the accuracy of such information, and potential investors should be aware that such information may change when final performance figures are available.

This material and any views expressed herein are provided for information purposes only and should not be construed in any way as an endorsement or inducement to invest in any specific program. Before opening a managed account or investing in any fund, you must obtain, read and examine thoroughly the program's disclosure document or offering memorandum.

Alternative investments involve significant risks and the value of an investment may go down as well as up.

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