



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.

FROM THE DESK OF JON SUNDT

-- SMOKE & FIRE --

4th Quarter 2003

Conversations with Richard Russell, Dr. Mark Faber and Jim Rogers

Here in San Diego, we witnessed part of the largest fire disaster recorded in California. At one point, an eyewitness described the firestorm as a 200-foot wall of fire and burning embers traveling at 30 mph.

I live in La Jolla, a coastal suburb of San Diego. The fires cast a dark orange cloud of smoke over the entire city, which you could see and smell. My daughter's school was closed for several days, and most of San Diego was brought to a standstill. When the fire broke out, my wife and I got on the phone and offered our home to friends that had been evacuated.

Several days into the disaster, as I flew over San Diego on my way to an investor's conference in New Orleans, I could see the 25-mile wide path of the fire. It was bearing down on the historic community of Julian, where the firefighters eventually made a stand and won. Nevertheless, over 2,000 homes were burned, and 15 people or more lost their lives. It was a real tragedy.

What, you might ask, does this tragedy have to do with hedge funds or investing or the markets in general? Well, I would argue that we could have "hedged" better if we were prepared for this disaster - this parallels the investment world today.

I have been in California for 30 years, and fires happen every year. Although this is one of the worst ever, I can't help but think this was a predictable outcome for southern California. We live in a very dry climate, where California chaparral that grow in the winter, dry out and become a tinderbox in the fall. Yet each year, people build their homes on the edge of the chaparral and continue the fight to save their homes and neighborhoods. Very few people take adequate precautions, and most people think "**it won't happen to me.**"

City and county officials were unprepared for the disaster and lacked adequate resources to fight, what I'm afraid to say was, a predictable tragedy. People weren't hedged. The results are heartbreaking to witness. And now, after such hardship, people will finally begin to buy more fire extinguishers. They will find that extra time to cut back the brush surrounding their homes. That old wood shake roof will get replaced with fire retardant roofing. Important pictures and files will be stored outside the home. People will check the fine print on their fire insurance. Local and state government will beef up fire departments and disaster plans. The list goes on.

Consider the scenario, we just witnessed a horrific fire and tragic loss, based on a sequence of events that had a probable outcome given the underlying facts. Now that the event has occurred, people will take corrective measures. In my opinion, those corrective measures will last for a year or two, and as people start to forget about the fires, the brush will grow back, homes will be built in high risk areas and roofs may not be replaced. Just like how they forgot about the fires that occurred in the years before. This is a pattern that is replicated in the investment world every day.

Consider the investing public. Over the past decade, investors piled money into one of the biggest investment bubbles of our lifetime. There had been bubbles before, and many were warned that the markets were at unsustainable levels. Investors kept driving stocks up higher and higher. And yet many of those people did not take adequate precautions and thought, "**it won't happen to me.**" A number of stock prices

SPECIAL REPORT - 4th Quarter 2003

Alternative investments, including hedge funds and futures funds, entail a substantial degree of risk, including, but not limited to, risk of loss of investment.



were driven to never before seen P/E ratios, and analysts were quick to point to the new paradigm. The result: the subsequent “fire” burned many investors because the common averages, like the Dow and S&P 500, were down over 50% at some points.

And now, the market has begun to rally. A number of P/E ratios are climbing, and it appears that the story has started all over again.

This process of “mental laziness” or forgetfulness, followed by heightened awareness, followed again by “mental laziness”, is a fundamental emotional cycle that we as human beings are all predisposed to. These cycles are replicated throughout our lives—our personal lives, relationships and how we plan ahead. These cycles, and others like it, are now being explored in the field of neuroscience. In laboratories and universities around the US, researchers are trying to unlock the behavior patterns of our brains that effect how we make investment decisions. They call it behavioral finance. The results could be profound to the individual investor.

Behavioral finance is a complex subject for me to convey in its entirety, but I believe there are a few simple concepts stemming from this field that can help you with your investment processes. I believe it is vital to understand how your brain is wired, in order to optimize your investment and reduce your investing mistakes. I will take a stab at explaining these characteristics **in my next letter**, but I can tell you that based on this research, it seems our brains are better wired for short-term decisions rather than complex, **long-term planning and forecasting**. It’s almost as if those that are wrapped up in the short-term emotion of investing, are controlled by the part of the brain that controls the “fight or flight” response. The long-term, strategic thinkers and contrarians, on the other hand, are more sensitive to the brain’s long-term signals. Who do you think has won this battle in bubbles or market turns? One of the greatest truths about investing, in my opinion, is to “fade your emotions.”

As the President of Altegris, my job is to think strategically in the search for alternative investments. Where might the next big opportunities be? What are the strategic plays that aren’t entirely obvious to the short-term crowd? Where might the excess in the market be located as opposed to the undervalued? In considering these questions, I spend as much time as possible interfacing with those whom I consider long-term, strategic thinkers. I can then direct my research team to find managers that can add value based on certain economic scenarios.

Some of the more common opinions I am gathering from my peers are the following potential scenarios: bearish US dollar, bullish foreign currencies, bearish US equities, bullish Asian equities and bullish commodities. These scenarios are not predictions, but, rather, are the opinions of some of those persons whom I think are some bright minds in finance.

In the last two months, John Mauldin, a business associate of mine, and I have met with Richard Russell, Dr. Marc Faber, and Jim Rogers, all on separate occasions. All of these men, in one way or another, said that they believe there is a potential “fire” on the horizon. The following are summaries of the opinions of these three men, as relayed to me:¹

¹ These opinions were based on market and economic conditions at that time, and these opinions may have changed since that time.

SPECIAL REPORT - 4th Quarter 2003

Alternative investments, including hedge funds and futures funds, entail a substantial degree of risk, including, but not limited to, risk of loss of investment.



Richard Russell, a long time author of the widely respected Dow Theory Letter and a fellow La Jolla resident, thinks that we have been in a bear market for equities for quite some time now. He is very bullish on gold and very bearish on the US dollar. Over dinner last month, he forecast a bearish outlook for the US dollar and equities.

Dr. Marc Faber, a global contrarian, Barrons contributor and author of the book "Tomorrow's Gold", has been in Asia since 1973. He studied economics at the University of Zurich and, at the age of 24, obtained a Ph.D. in economics, graduating magna cum laude. From 1978 to February 1990, he was the Managing Director of Drexel Burnham Lambert (HK) Ltd. In June 1990, he set up his own business, MARC FABER LIMITED which acts as an investment advisor, fund manager and broker/dealer.

I had dinner with Dr. Faber in New Orleans last week and he shared his views on the global economy, along with snowboarding in Gstaad and other interesting tid-bits. He agrees with Russell's bearish forecast on the US dollar and equities. He is bearish on both. Dr. Faber also went on to state his bullish opinion on China, the energy and physical commodities markets. He believes that when China consumes, it consumes! However, Dr. Faber does feel a pullback or mini-crisis to the recent run-up² of the Chinese markets is very possible in the short-term, but his long-term view remains unchanged.

Jim Rogers was partners with George Soros in the well-known hedge fund Quantum Fund, and essentially retired a number of years ago, at the age of 37. He has since traveled the world twice, written the book "Investment Biker" and is a frequent contributor to Barrons. His opinions are similar to those mentioned above. Rogers is bullish on China, but suggested the best way to play China may be to invest in commodities. He believes that the Chinese aren't going to buy light bulbs from the rest of the world, they are going to make them. At the New Orleans Investment Conference in November 2003, he stated, "The bear market in commodities ended in the late 90's, and the bull market will probably last for another 8-12 years."

Please remember that these are only opinions of three individuals and are not predictions of what will or may actually happen in the market place, either in the short-term or the long-term. Also, investing in hedge funds, futures funds, or other alternative investments that operate in commodities markets, foreign markets, or otherwise, entails a great deal of risk.

Please know that I am not making any predictions - I get paid to think and execute potential solutions to possible scenarios. If you read carefully, you may notice that some of the above scenarios have appeared recently in the financial press. Warren Buffet was recently quoted in the Wall Street Journal as making "significant investments" in foreign currencies (WSJ Online 10/27/03). Bill Gross of PIMCO, stated in his September newsletter, "The currency/bonds/stocks of a reflating economy engaged in guns and butter, Hummer and Hummvee spending of near historical proportions are bad investments." (PIMCO Investment Outlook, September 2003.)

There are also numerous advisers who are bullish on the markets. Smartmoney.com (November 3, 2003) quoted Steve Galbraith of Morgan Stanley saying, "As for valuation, our rate-adjusted model indicates that stocks continue to be moderately undervalued and to be more attractive than bonds". Jeffrey Kleintop of PNC Advisors said, "Despite the potential for heightened volatility over the next couple of months, we continue to see upside for stocks". Some of you may agree with these thoughts; some of you may not.

² The MSCI Far East Index is up 29.503% in US Dollars this year (through 11/13/03).

SPECIAL REPORT - 4th Quarter 2003

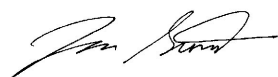
Alternative investments, including hedge funds and futures funds, entail a substantial degree of risk, including, but not limited to, risk of loss of investment.



Some of you may be focusing on the short-term action of the market; some of you may have a long-term plan. I suspect that most investors have thought about these possible "what if" scenarios. I would encourage you to look at your current portfolio and ask yourself the question, "What if?"

As a qualified investor, why not explore the unique alternative investment strategies that are designed to potentially capitalize on these and other "what if" scenarios? Remember, alternative investments are not for everyone, and they entail substantial risks, as described herein, including the risk of loss of investment. At Altegris Investments, our philosophy is to think outside the box - to think long-term, and to ask the question, "What if?" The market crash over the last 4 years and the San Diego fire had many people wishing they had.

Until next time...



Jon C. Sundt
President

Alternative investment products, including hedge funds, involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly 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 which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager. Alternative investment performance can be volatile. An investor could lose all or a substantial amount of his or her investment. Often, alternative investment fund managers have total trading authority over their funds; the use of a single advisor applying generally similar trading programs could mean lack of diversification and, consequently, higher risk. There is often no secondary market for an investor's interest in alternative investments, and none is expected to develop. There may be restrictions on transferring interests in any alternative investment. Alternative investment products often execute a substantial portion of their trades on non-U.S. exchanges. Investing in foreign markets may entail risks that differ from those associated with investments in U.S. markets. Additionally, alternative investments often entail commodity trading, which involves substantial risk of loss.

Altegris, a member of NASD, offers various alternative investments, including hedge funds and futures funds, that may operate in commodities markets and foreign markets, among others. Altegris and/or its officers/partners may have a financial interest in such alternative investments.

SPECIAL REPORT - 4th Quarter 2003

Alternative investments, including hedge funds and futures funds, entail a substantial degree of risk, including, but not limited to, risk of loss of investment.

