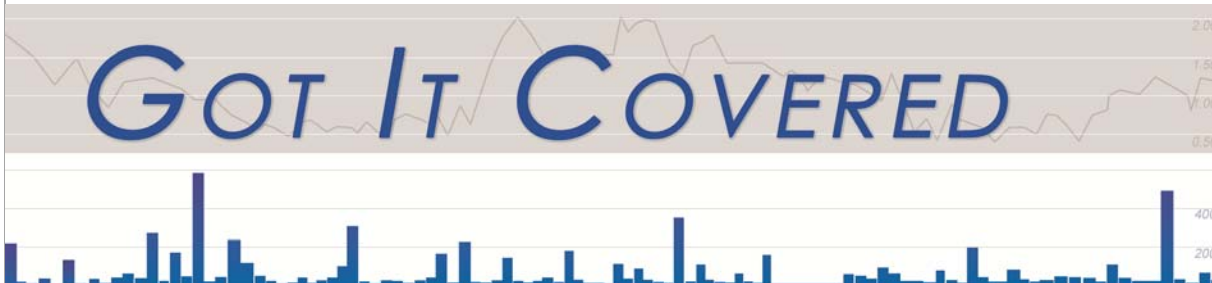


Theta Growth Update

April 2012



Capstone **Theta Growth** strategy is designed for investors who want equity market participation with enhanced income potential. This approach is appropriate for investors looking for higher yields, capital appreciation and reduced risk levels.

Theta: A measure of the rate of decline in the value of an option due to the passage of time. Theta can also be referred to as the time decay on the value of an option. If everything is held constant, then the option will lose value as time moves closer to the maturity of the option.

Theta is part of the group of measures known as the "Greeks" which are used in options pricing.

What are the Option Markets Saying?

The S&P 500 closed Friday at 1378, down 2% from last months' option expiration settlement, but up 10% year-to-date. It looks like the market is in the midst of a small setback, but the year-to-date gains are impressive.

Stock market volatility is a great gauge of investor anxiety. When investors are worried, volatility is bid higher as traders pay more to insure their portfolios. When investors are highly confident/complacent, volatility is reduced.

Equity market volatility is low.... too low! The VIX is currently at the lowest levels seen in the past 5 years. The market is experiencing net outflows from equity funds while apparently investors have not been this confident in the stock market for quite a while. Granted, there are always things to worry about, but given the portfolio of global goings-on today, investors have become perhaps overly optimistic. When the VIX (white line currently at 15%) has approached 15-17% in the past several years, stocks (the orange line) have tended to retreat.





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Underneath this minor correction, the market reflects a more defensive bias. Small cap stocks have underperformed since early March and Treasury yields suggest a continued flight to safety premium. That said, there seems to be a consistent bid underneath equities.

It's simply tough to be too bearish when all global central banks are ready, willing and able to turn the monetary spigots.

For now, we consider this a minor correction in a bull market. The year-to-date gains are rather impressive, and May typically ushers in some seasonal headwinds, so we don't expect great upside over the next several months. We suspect this sell-off to define the lower end of a trading range for the summer.

Theta Growth Broad Strategy:

The Theta/Growth portfolio is designed to generate income. Cash is generated from the receipt of dividends plus the premium income received from covered options sold against the underlying equity basket.

Current Income	10.42%
% Written	99.00%
Duration	152.89 days
Delta	+28.82%
Implied Vol.	+25.73%
Out of the money	7.57%

Theta Growth Specific Issues:

Friday was April option expiration. For the first time in a long while, we experienced more portfolio turnover than desired. The bottom line is the stock market simply rallied beyond the normal parameters for option sellers. Like the volatility analysis suggests, in the past, this sort of event has signaled a correction to lower stock values.

We were called out of EMC, INTC, IP, MPC, MSFT and SBUX. We were intentionally called out of IP and MPC, the balance of the equities simply rallied further than we anticipated. As you look at the list, consumer discretionary and technology stocks are areas that have led the market higher, and they are areas where we are overweighted. We will be redeploying that cash back into the same areas and plan to add to our finance exposure.