

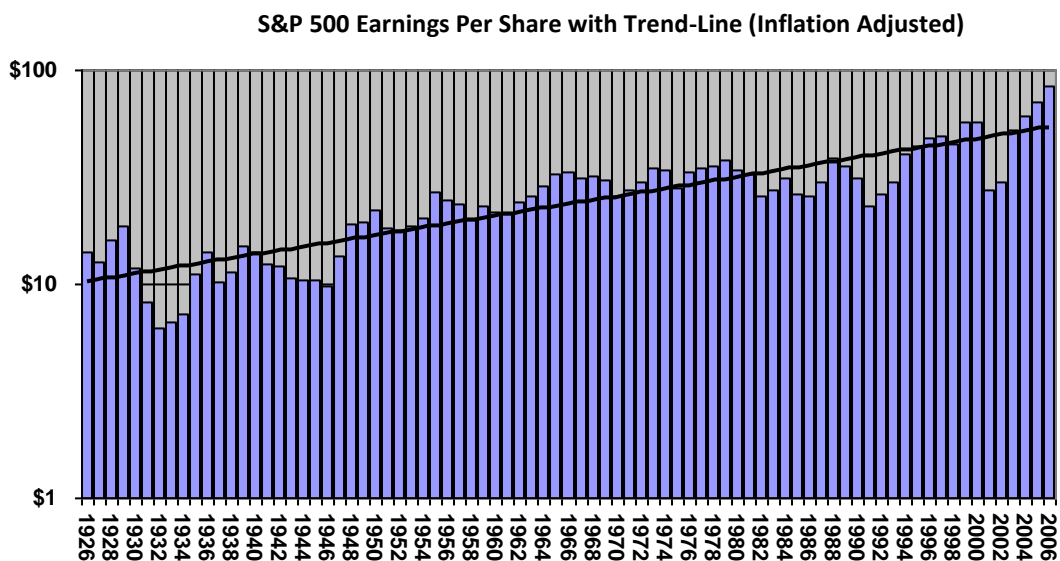
## Risk Control

The Dow crossed 13,000 with great fanfare last month. Now is a good time to pause and examine what that means.

Like the World Champion St. Louis Cardinals, the economy goes on winning streaks. The stock market today reflects an economy on a winning streak. The streak includes high corporate profits, low inflation, and low unemployment.

Thoughtful investors and baseball fans alike recognize that there are both winning and losing streaks. Witness the Cardinals so far in 2007.

Investors who are using today's all-time high corporate profits to value stocks are, in our view, like baseball fans who assume a winning streak will last forever. To assess corporate profits for the overall market, we prefer to look at an average trend-line which is undistorted by shorter run economic fluctuations. The chart below shows historical corporate profits and the average trend-line.

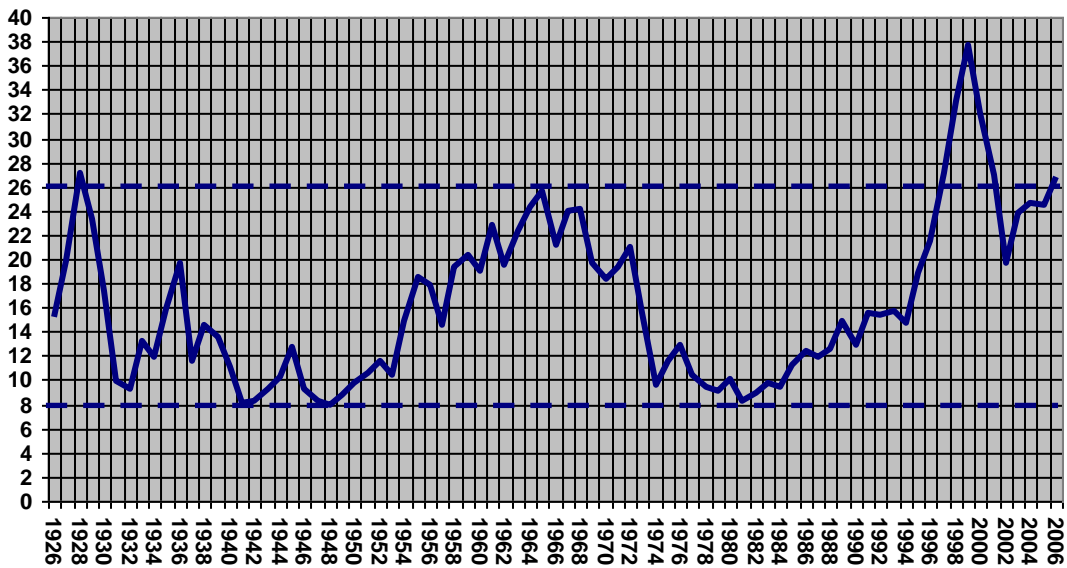


Sources: S&P Statistical Service; Alpine

Profits coming out of the 2001-2002 recession have been very strong. Could they stay strong? We hope so. But if history is any guide, counting on winning streaks that last forever is a bad idea.

The chart below shows the cost to buy \$1 of trend-line earnings in the stock market. The higher the price, the higher the risk. Risk comes in two forms – low quality businesses and high stock prices. The S&P 500 and the Alpine portfolio both contain high quality businesses, so our focus here is on the risk of high stock prices.

S&P 500 P/E on Earnings Trend-Line



Sources: S&P Statistical Service; Alpine

Two facts stand out. First, stock prices in the late 1990's rose to unprecedented levels. Second, stock prices are at the high end of their historical range today. Could prices remain high? Sure. But we won't count on it.

King Solomon said there is a time for everything. For investors, there is a time for offense, and there is a time for defense. In our opinion, today is a time for defense.

Alpine portfolio businesses have never been stronger in quality, our earnings estimates are as conservative as ever, and our stock intrinsic value estimates are reasonably low relative to normalized earnings. Last but not least, we have plenty of dry powder in the event that the economy or stock prices hit a losing streak.

So uncork the champagne bottles for Dow 13,000 we will, but prepare the Alpine portfolio for the reality of high stock prices we also will.

Nick Tompras  
May 2007

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