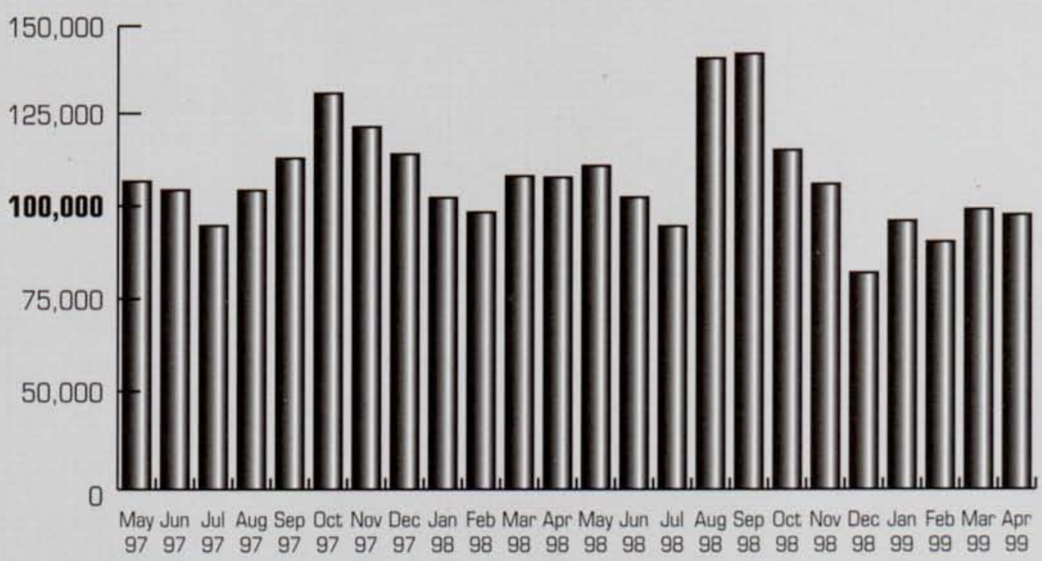
THE PROGRAM

Linear Program Trading, (**LPT**) takes advantage of market volatility by allocating positions in the **Standard & Poor's 500 (S&P 500 Index)**. Rather than attempt to predict significant movements in individual stock or bond prices, the direction of interest rates, earnings or the economy, advanced mathematical modeling is employed to find profit opportunities. Through the statistical evaluation of the distribution of market movements and trading expertise, strategies are developed to help provide consistent, long-term performance with an emphasis on preservation of capital.

LPT utilizes only "exchange-traded" options on the S&P 500 Index as the vehicle to attempt to take advantage of the erosion of option premiums. The S&P 500 Index represents over $11 trillion in market capitalization of America's largest corporations. Historically over **100,000** S&P 500 options trade daily.

S&P 500 INDEX
Average Daily Volume



Source: CBOE

**LPT has a systematic, discipline
adhered to in order to avoid emo**

The philosophy is fundamentally
investment and mutual fund man
advanced software are used exte
profit while limiting risk. Tools
enhance strategies and find applic

LPT collects premiums from th
speculators predicting the mar
hedging long or short positions.
risk using combinations of lo
expiration dates as protection a
Crash of 1987. Reduced premi
possibly to zero. In an extended

1. Time decay of SPX Index Option

The **Theta** of a portfolio of derivative se
the portfolio with respect to time with
index options is represented mathemati

$$\Theta = \frac{-SN'(d_1)\sigma^{-q(T-t)}}{2(T-t)^{-2}} + qSN\,(d_1)$$

$$\Theta = \frac{-SN'(d_1)\sigma^{-q(T-t)}}{2(T-t)^{-2}} - qSN\,(-d_1)$$

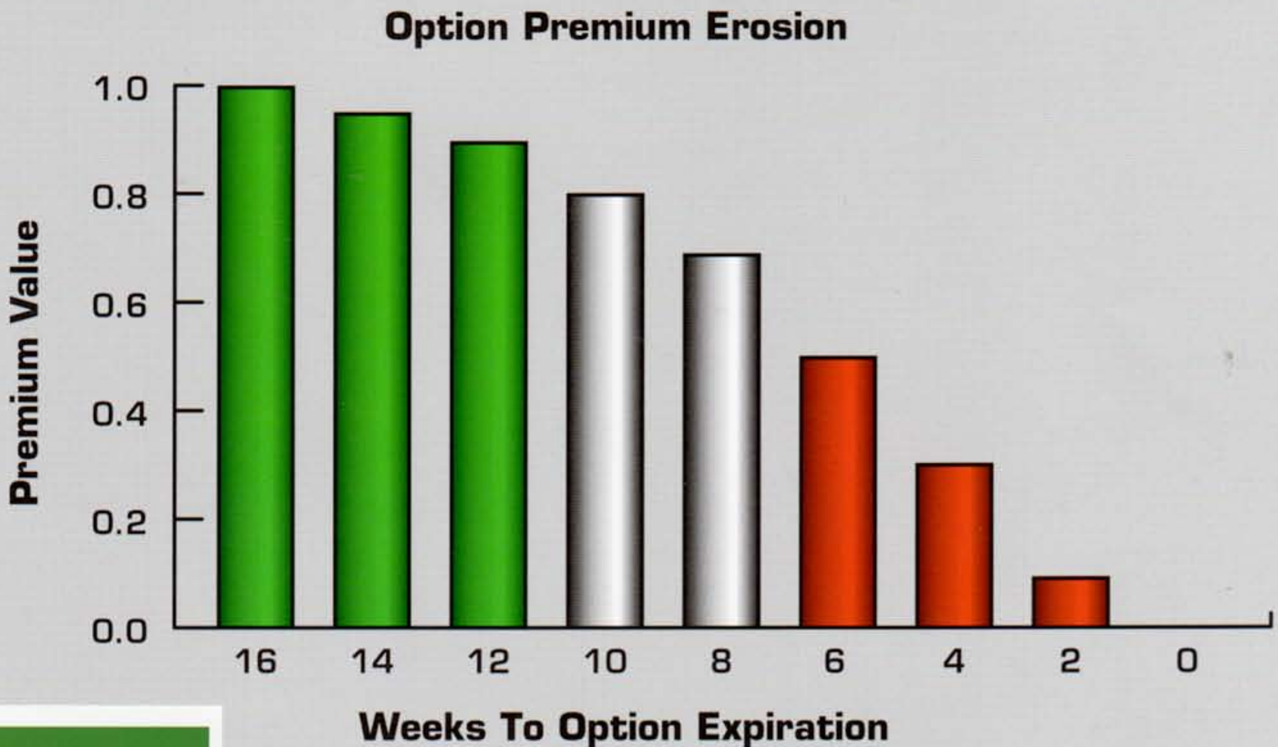
2. The effect of distributional m

The **Delta** of a derivative security, Δ,
respect to the price of the underl
follows, where **f** is the price of the
underlying asset:

OPTION PREMIUMS

Premium: The price that a seller of an option receives and the buyer pays for the rights conveyed by the option.

Option premiums erode over time with the most rapid erosion occurring in the final weeks leading up to expiration of the option contract.



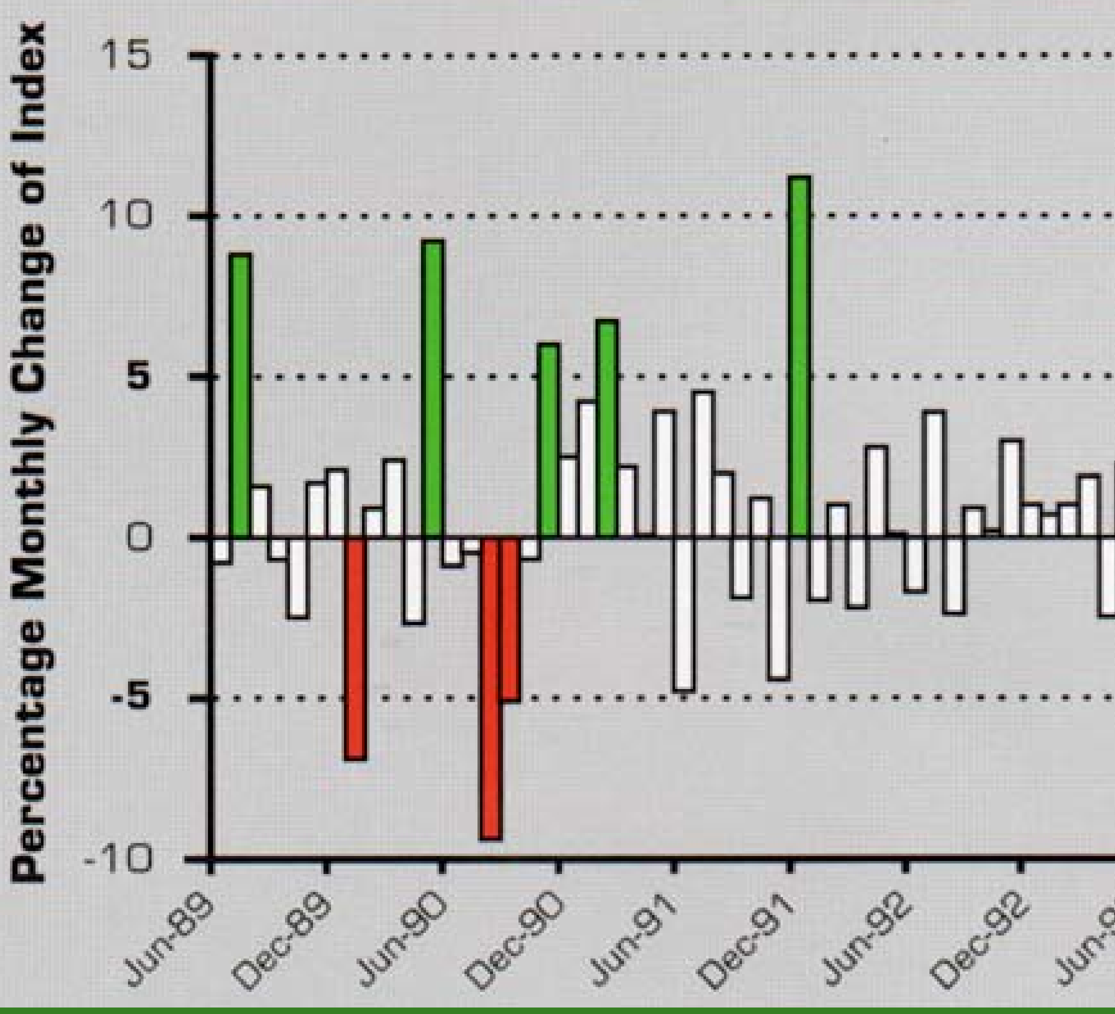
The essence of the Program's philosophy is to sell **S&P 500** Index Options with the greatest erosion potential, normally the last four to six weeks of a contract. Over time the value of the options that have been sold will usually expire worthless.

Source: Bloomberg/J.C. Hull (1993) - Theoretical Example

Historical performance of securities prices is no gua

An important basis for the Pr historically trades within a rat have shown this to be true:

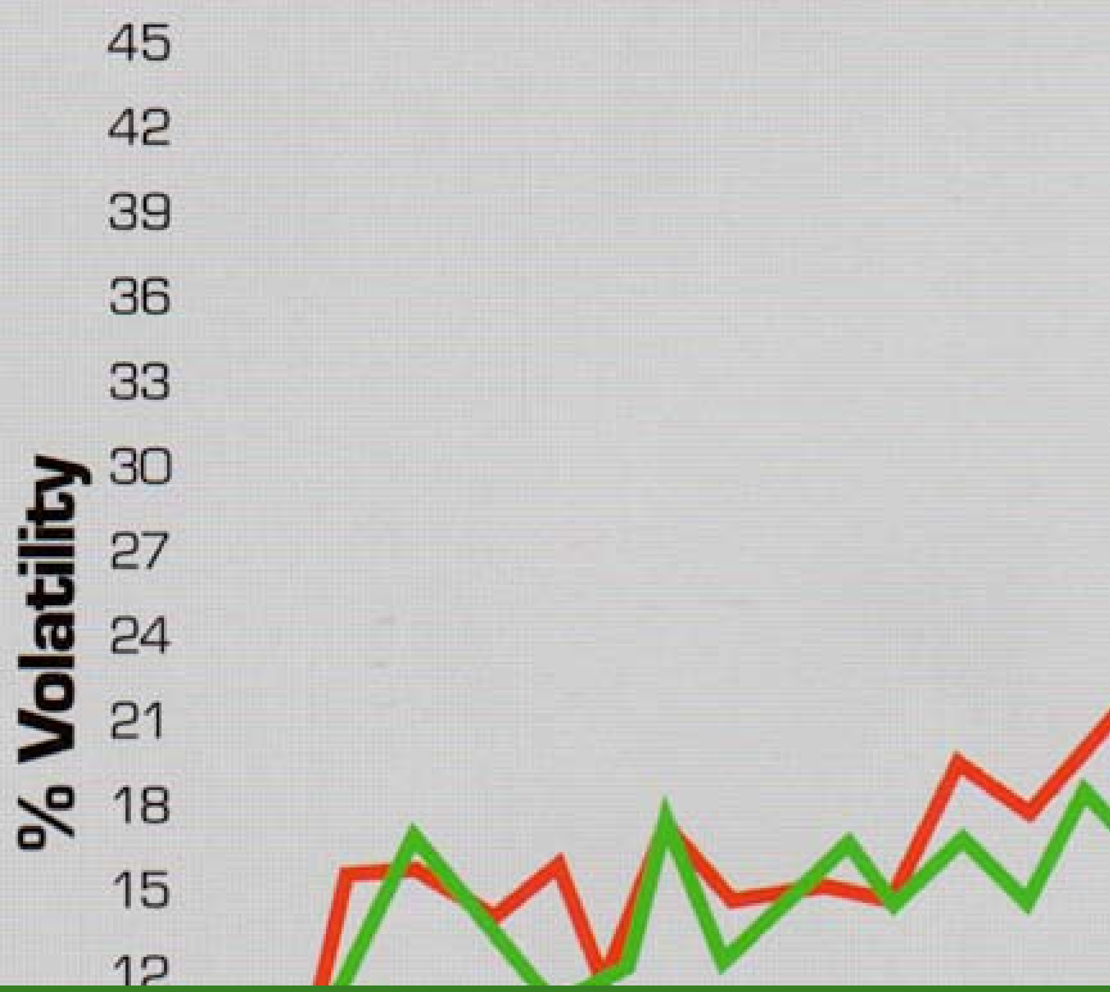
Distribution Of Market



Historical performance of securities prices is no guar

The primary goal of LPT is to ca and "historic" volatility.

Three Year Historic



TAX CONSIDERATIONS

The tax treatment is very favorable to certain investors.

As a result of the **Tax Reform Act of 1984**, a broad-based stock index option is treated as a **Section 1256** contract [**Internal Revenue Code**]. Gains and losses from the sale, expiration, or exercise are treated as **60%** long-term capital gain or loss and **40%** short-term capital gain or loss regardless of the holding period.

For example, a high net worth individual who is normally taxed in the highest US Federal income tax bracket of **39.6%** will be subject to a capital gains tax rate of **27.84%** on all profits. Subsequently, **LPT** offers certain investors a **30%** lower tax treatment plan than a top tax bracket individual's taxable ordinary income earned.

After-tax returns for certain **LPT** investors can be significant for certain investors as compared to other investment vehicles because of the special federal income tax treatment of indexed options. Each investor's situation may be different, please consult your own tax adviser before effecting options transactions.

SEC. 1256.SECTION 1256 CONTRACTS MARKED TO MARKET

(Sec. 1256(a)

(a) GENERAL RULE - For purposes of this subtitle -

(1) each section 1256 contract held by the taxpayer at the close of the taxable year shall be treated as sold for its fair market value on the last business day of such taxable year (and any gain or loss shall be taken into account for the taxable year.

(2) Proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account by reason of paragraph (1).

(3) Any gain or loss with respect to a section 1256 contract shall be treated as -

(A) short-term capital gain or loss to the extent of 40 percent of such gain or loss, and

(B) long-term capital gain or loss, to the extent of 60 percent of such gain or loss, and

(4) if all the offsetting positions making up any straddle consist of section 1256 contracts to which this section applies (and such straddle is not part of a larger straddle), sections 1092 and 263(g) shall not apply with respect to such straddle.

Source: U.S. Internal Revenue Code

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Options Are Not Suitable

Index Option

An index is a measure of the value
published by various sources, including
several exchanges.

Option

An option is a legal contract that give
amount of the underlying asset at a pr
price) for a specific time period.

Call

A certain type of option contract that
the underlying asset.

Put

A certain type of option contract tha
the underlying asset.