



# CAPITAL ALLIANCE ADVISORS, INC.

## – INVESTMENT FUNDS –

*\$80,000,000 Combined Private Offerings*

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### 3RD QUARTER 2008 UPDATE

#### Overview

This *3rd Quarter 2008 Update* covers the two income funds that Capital Alliance Advisors, Inc. manages – the Institutional Mortgage Fund (“IMF”) structured for fee-based advisors, and the Advisors Mortgage Division (“AMD”) structured for commission-based representatives.

The Funds are private offerings which together constitute the \$80M “Combined Offerings” offered through Registered Investment Advisors and Broker-Dealer Representatives.

The IMF began 12 years ago. Through four economic cycles of decline and growth, it has performed admirably, distributing returns to investors from 11.00% to 7.00%. The AMD began two years ago and has distributed between 8.5% and 7.00% return to investors.

Although both funds performed over the 3rd quarter substantially better than did most mortgage-based investment assets in the current market malaise, their Net Asset Values per share declined, mostly due to substantial increases in their Loan Loss Reserves. The IMF’s per share Net Asset Value per share declined by 4.12% from \$8.00 in the prior quarter to \$7.67, and a total of \$3.83 million was written off. The AMD’s per share net asset value declined by 1.74% from \$9.21 in the prior quarter to \$9.05 and a total of \$373,065 was written off.

#### Investment Strategy

The Funds’ primary focus is to originate loans on high-quality residential properties and hold them in inventory until maturity. The Funds’ Portfolio consists of loans which have a maximum loan-to-value ratio of 75% at the time of origination. A cap on the pool’s exposure ensures there is at least 25% equity in the property to protect the investment.

Both Funds have access to \$43M in credit lines which can be used to leverage investor capital. With the use of modest leverage and a positive borrowing spread, more loans can be funded to further increase the portfolios’ diversity, investment returns, and to provide a hedge against inflation.

Capital Alliance has created a *unique niche* for funding private loans in both growing and declining economic environments. When the real estate market is robust and *property values increase*, owners require financing to make new purchases and to make improvements on existing properties. When market demand decreases and *property values decrease*, opportunities arise to acquire discounted properties. Owners may want to access the equity in their existing real estate so they can maintain liquidity or take advantage of other investment alternatives.

## DIVERSIFICATION

Diversification of loans held in the Portfolio is achieved through multiple and varied loan characteristics. Some of these characteristics are: geographic diversification throughout California and the western states, varying loan maturities, loans secured by multiple property types, and the use of both fixed and adjustable interest rates. (See Portfolio Attributes on page 6.)

## LOW VOLATILITY

Investing in a pool of residential loans as an asset class provides a passive way to invest in real estate while minimizing risk and preserving capital. There is a relatively low correlation between mortgage pool returns and the returns of other market asset classes.

### Actual Investment Performance of the Institutional Mortgage Fund since Inception (4/1/96 – 9/30/08)

From	To	Term	Initial Investment (a)	Distribution Rate	Actual Distributions, Non-compounded (b)
4/1/96	12/31/96	9	\$100,000	11.00%	\$8,078
1/1/97	12/31/97	12	\$97,895	11.00%	\$10,768
1/1/98	12/31/98	12	\$97,895	11.00%	\$10,768
1/1/99	12/31/99	12	\$97,895	11.00%	\$10,768
1/1/00	12/31/00	12	\$97,895	11.00%	\$10,768
1/1/01	12/31/01	12	\$97,895	11.00%	\$10,768
1/1/02	12/31/02	12	\$97,895	10.25%	\$10,034
1/1/03	12/31/03	12	\$97,895	10.25%	\$10,034
1/1/04	12/31/04	12	\$97,895	10.25%	\$10,034
1/1/05	12/31/05	12	\$97,895	9.50%	\$9,300
1/1/06	12/31/06	12	\$97,895	9.50%	\$9,300
1/1/07	12/31/07	12	\$97,895	8.84%	\$8,652
1/1/08	9/30/08	9	\$97,895	7.00%	\$5,139
Total Distributions:		150			\$124,411
A \$100,000 initial investment (\$97,895 after O&O) grows to:					\$222,306

- (a) Based on \$100,000 investment and a one-time \$0.20 charge (\$2,105) on new shares purchased.
- (b) Cash distributions paid monthly; calculated without income tax implications. Total distributions plus return of investment equals \$222,306. From October 2007 through September 2008, the calculation of distributions was changed to reflect changes in the net asset value per share. The Distribution Rate during 2007 is a weighted average of the 9.50% rate paid for the first nine months and 7.00% paid thereafter.

Note: Redemption occurs at Net Asset Value ("NAV") per share. The redemption NAV of the IMF is \$8.50 per share as of March 31, 2008; however, the NAV per share used to compute distributions from October through December 2007 was \$9.30 per share and from January-March 2008 was \$9.30 per share, April 2008 was \$9.06 per share, May-July 2008 was \$8.50 per share, and August and September 2008 was \$8.00 per share.

## Actual Investment Performance of the Advisors Mortgage Division Since Inception (4/1/06 – 9/30/08)

From	To	Term	Initial Investment (a)	Distribution Rate	Actual Distributions, Non-compounded (b)
4/1/06	12/31/06	9	\$100,000	8.50%	\$6,375
1/1/07	12/31/07	12	\$100,000	8.13%	\$8,125
1/1/08	9/30/08	9	\$100,000	7.00%	\$5,250
Total Distributions:		30			\$19,750
A \$100,000 initial investment grows to:					\$119,750

- (a) Based on \$100,000 investment. (There is no O&O charge for the AMD as there is for the IMF.)
- (b) Cash distributions paid monthly; calculated without income tax implications. Total distributions plus return of investment equals \$119,750. From October 2007 through March 2008, the calculation of distributions was changed to reflect changes in the net asset value per share. The Distribution Rate during 2007 is a weighted average of the 8.50% rate paid for the first nine months and 7.00% paid thereafter.

Note: Redemption occurs at Net Asset Value (“NAV”) per share. The redemption NAV of the AMD is \$9.21 per share as of March 31, 2008; however, the NAV per share used to compute distributions from October through December 2007 was \$9.50 per share and from January–April 2008 it was \$9.50 per share, and from May through September 2008 was \$9.21 per share.

### RATE OF RETURN

The Manager is responsible for investing the Funds’ capital in high-yielding mortgages, servicing the loan portfolios and making monthly dividend distributions.

Since the inception of the IMF 12 years ago, 150 consecutive monthly distributions have been made to its Investors.

Over the 3rd Quarter 2008, the distribution rates for the IMF and AMD were 7%.

The historical distribution rate of the IMF has adjusted only four times in the past 12 years, and the share price has never varied more than 6.18% (see table on page 2). For the AMD, the distribution rate has adjusted twice, and the share price has varied by 3%.

### SECURITY AND SAFETY

Unlike investments in stocks or bonds, mortgage loan investments are secured by a recorded lien on real property – a tangible asset. The Funds maintain a policy not to make a loan in an amount which exceeds 75% of a property’s appraised fair market value (the loan-to-value, or LTV, or CLTV for “combined” LTV if more than one asset is being collateralized). A LTV of 75% means that there’s an equity position of 25% of the collateral’s value. The LTV provides a substantial equity buffer to enhance the Funds’ safety because borrowers are disinclined to allow foreclosures on property in which they have an economic interest.

Another element that contributes to safety is a healthy loan loss reserve (“LLR”). This is a reserve to be used if the Funds experience losses should foreclosure sales proceeds be below the mortgage value plus expenses. The Manager is actively increasing the LLR.

## Loans by County

County	----- Year End December 31 -----			Nine Months Ended
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
ALAMEDA	9.0%	13.2%	5.43%	5.60%
CALAVERAS	-	1.5%	0.78%	0.80%
CLARK	-	1.5%	-	-
CONTRA COSTA	4.5%	6.7%	6.98%	6.40%
IMPERIAL	-	-	0.78%	-
KING (WA)	-	-	0.78%	0.80%
KITSAP (WA)	2.0%	1.5%	0.78%	0.80%
LOS ANGELES	9.0%	8.1%	23.26%	24.80%
MADERA	2.0%	1.5%	0.78%	0.80%
MARIN	6.5%	7.2%	6.20%	6.40%
MERCED	-	1.5%	2.33%	1.60%
MONTEREY	15.5%	7.2%	3.88%	3.20%
ORANGE	6.5%	1.5%	6.20%	6.40%
PIMA (AZ)	-	1.5%	0.78%	0.80%
RIVERSIDE	-	1.5%	4.65%	4.80%
SACRAMENTO	4.5%	7.2%	3.10%	-
SAN BENITO	-	-	0.78%	0.80%
SAN BERNADINO	-	-	2.33%	2.40%
SAN DIEGO	28.5%	17.7%	10.85%	11.20%
SAN FRANCISCO	-	5.8%	5.43%	6.40%
SAN JOAQUIN	2.0%	2.9%	3.10%	3.20%
SAN LUIS OBISPO	-	1.5%	1.55%	1.60%
SAN MATEO	-	1.5%	1.55%	1.60%
SANTA BARBARA	2.0%	-	1.55%	.800%
SANTA CLARA	-	1.5%	2.33%	4.00%
SANTA CRUZ	2.0%	1.5%	-	-
SISKIYOU	-	-	.78%	0.80%
SOLANO	-	1.5%	0.78%	0.80%
SONOMA	-	1.5%	0.78%	1.60%
STANISLAUS	-	1.5%	-	-
TEHAMA	2.0%	1.5%	0.78%	0.80%
VENTURA	-	-	0.78%	0.80%
<b>Total Counties:</b>	<b>16</b>	<b>25</b>	<b>29</b>	<b>27</b>

*All loans were funded in the states of California, Arizona and Washington.*

## Historical Track Records of the IMF and the AMD

### Institutional Mortgage Fund

	Year Ended December 31			Nine Months Ended
	2005	2006	2007	2008
<b>Operations Highlights <sup>(a)</sup></b>				
Revenue	\$2,592,887	\$3,776,448	\$5,485,507	\$2,667,518
Net income (Loss)	\$1,317,274	\$2,469,474	\$1,752,913	(\$2,480,689)
<b>Common Share Data</b>				
Shareholder Distributions	\$1,853,041	\$2,308,609	\$2,303,589	\$1,243,760
Shares outstanding <sup>(b)</sup>	2,411,198	2,721,232	2,758,644	2,608,335
Net Asset Value per share	\$9.15	\$9.25	\$9.06	\$7.67
<b>Balance Sheet Highlights <sup>(a)</sup></b>				
Mortgage notes receivable, net	\$24,320,505	\$37,623,714	\$49,610,920	\$39,763,406
Total assets	\$29,194,170	\$41,274,816	\$53,819,762	\$49,835,119
Total liabilities	\$7,134,720	\$16,093,362	\$28,825,460	\$29,835,045
Members' equity	\$22,059,450	\$25,181,454	\$24,994,302	\$20,000,074

(a) For the years ended December 31, 2004 through 2007, financial information is obtained from financial statements of the IMF, audited by independent certified public accountants. The September 30, 2008 financial information is obtained from Internal Financial Statements.

(b) Shares not publicly traded.

### Advisors Mortgage Division

	Year Ended December 31		Nine Months Ended
	2006	2007	2008
<b>Operations Highlights <sup>(a)</sup></b>			
Revenue	\$202,733	\$919,542	\$1,206,055
Net income	\$133,023	\$276,238	\$268,166
<b>Common Share Data</b>			
Shareholder Distributions	\$141,786	\$493,368	\$387,187
Shares outstanding <sup>(b)</sup>	458,875	\$779,391	\$801,843
Net Asset Value per share	\$9.50	\$9.21	\$9.05
<b>Balance Sheet Highlights <sup>(a)</sup></b>			
Mortgage notes receivable	\$3,877,386	\$12,577,482	\$13,844,601
Total assets	\$4,358,602	\$14,707,911	\$15,729,177
Total liabilities	\$0	\$7,533,073	\$8,470,937
Members' equity	\$4,358,602	\$7,174,838	\$7,258,240

(a) For the years ended December 31, 2006 and 2007, financial information is obtained from financial statements of the AMD, audited by independent certified public accountants. The AMD became operable in the first quarter of 2006. The September 30, 2008 financial information is obtained from Internal Financial Statements.

(b) Shares not publicly traded.

## Portfolio Attributes

	Year End December 31			Nine Months Ended
	2005	2006	2007	2008
<b>Asset Characteristics</b>				
Number of loans outstanding	46	69	129	125
Total loans outstanding	\$24,433,953	\$41,501,100	\$64,704,101	\$54,227,706
Average loan size outstanding	\$531,173	\$601,465	\$501,582	\$433,822
Average loan as percent of total	2.17%	1.45%	0.8%	0.8%
Number of counties where security is located	16	25	29	27
Largest percentage of loans in one county	28.5%	17.7%	22%	24.8%
Number of properties owned by foreclosure	2	0	3	7
<b>Loan Characteristics</b>				
First Trust Deeds	39%	43%	38%	38%
Junior Trust Deeds	61%	57%	62%	62%
Total Loans	46	69	129	125
LTV/CLTV	60.1%	64.2%	65.6%	76.1%
Weighted Average Yield	11.26%	12.45%	11.98%	10.99%
Average Borrower Credit Score	600	644	612	600
Weighted Average Term of Note	25 mos.	49 mos.	99 mos.	92 mos.
Total Loans Outstanding with Adjustable Rates	12%	36%	34%	31%
<b>Property Types</b>				
Owner Occupied	48%	46%	55%	73%
Non Owner Occupied	52%	54%	45%	27%
Single Family, 1-4 units	85%	71%	79%	83%
Mixed Use, Multi Unit (5+)	15%	29%	21%	17%

## The Fund Manager

Since 1991, Capital Alliance Advisors, Inc. ("Capital Alliance") and its affiliates have funded nearly \$1 billion in all types of residential loans. These loans range from conforming to non-conforming, from jumbo to bridge loans, on single-family residences, multi-family, and mixed-use residential properties as well as properties being renovated. Capital Alliance provides the overall management, wholesale and retail loan origination, underwriting, construction oversight, loan servicing, and secondary marketing services via contractual arrangements with its affiliated companies.

The origination, underwriting, and loan servicing team have a combined 125 years of experience in the real estate industry. Overall, this experience in the real estate lending business has sharpened the firm's focus in creating meaningful relationships and providing superior service to all of its clients.

## Contact

### Capital Alliance Advisors, Inc.

#### Sales/Marketing:

Dennis Konczal, Linda St. John  
100 Pine St., Ste. 2450  
San Francisco, CA 94111

Phone: (415) 288-9575  
Fax: (415) 288-9590

drkonczal@calliance.com  
lstjohn@calliance.com

#### Shareholder Services:

Benilda Samson, Pamela Gonzales  
18952 MacArthur Blvd., Ste. 310  
Irvine, CA 92612

Phone: (949) 221-0450  
Fax: (949) 221-0455

bsamson@calliance.com  
pgonzales@calliance.com

Website: [www.calliance.com](http://www.calliance.com)

## Frequently Asked Questions

### ***When do I receive my distributions?***

Shareholders not participating in the Reinvestment Plan are paid monthly distributions. Statements of Account are sent quarterly to Shareholders. Both are sent via first class mail on or about the 15<sup>th</sup> of each month.

### ***What is the level of liquidity and is there a penalty for withdrawing money?***

Shareholders can liquidate some or all of their shares once a year on June 30 following receipt of their written request, which must be received by Capital Alliance between January 1 and May 15 of such year. No penalty is assessed when money is withdrawn from the IMF after one year, except on any shares purchased for which the Manager paid a commission to the Shareholder's investment representative, for which an Early Withdrawal Penalty equal to 10% of the Net Capital Contribution will be imposed for five years from the date of investment in such shares. For the AMD, a Deferred Sales Charge applies to shares redeemed prior to five years.

### ***Are there minimum requirements to be a Shareholder?***

All Shareholders must be accredited.

### ***Is there a minimum investment amount?***

Yes, for the IMF, \$40,000 and for the AMD, \$25,000.

### ***Is there any protection against declining real estate values?***

Yes, this is achieved through diversifying the locations of the real estate that collateralizes the loans, and ensuring that the equity level held by the borrower in the collateral is sufficient to withstand a substantial decline in value. As of September 30, 2008, the weighted average equity in the loan portfolio is 23.9% (a combined-loan-to-value of 76.1%); therefore, market values of the collateral (real estate) in the portfolio would have to decline significantly before a foreclosure would result in a loss of portfolio income. (See *Diversification and Security and Safety* on pages 2 and 3.)