

Untapped Wealth

February 2011 Edition

Investing in Mortgages and Actually Making Money

Generally when one brings up mortgages, it *could* be an interesting conversation.. Maybe just a tad more interesting than a life insurance salesman's shtick. However when you bring up how one could make money in these things, well the conversation becomes just a tad more interesting.

For the month of February, I want to show you a company that has proving it has what it takes to tame the ugly mortgage market and produce gains for its investors.

The second company is a solution provider for insurance companies and has shown it is a proven leader and has consistantly shown profits, especially as of lately.

Together, these two positions have the potential to bring serious gains to your portfolio. Without further adiu, here we go.

Have a great month.

Tim Fields

The first position is Newcastle Investment Corp. (NCT: \$7.73*). NCT is a real estate investment and finance company located in New York City. The Company owns a diversified portfolio of debt predominantly secured by commercial and residential real estate.

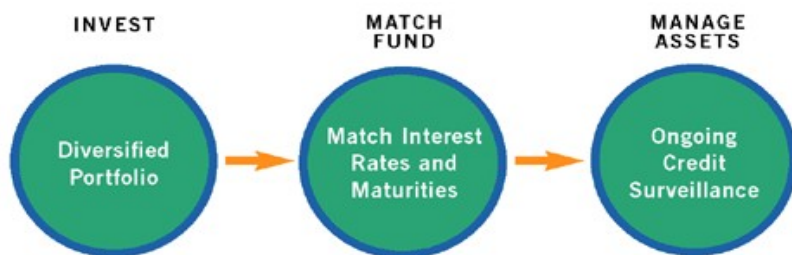


The Company seeks to utilize match funded financing strategies to increase returns to shareholders and minimize its exposure to refinancing and interest rate risks. The Company is taxed as a real estate investment trust.

Newcastle is managed by an affiliate of Fortress Investment Group LLC, a premier investment and asset management firm. Fortress has provided a dedicated Newcastle executive management team with extensive experience across the key disciplines necessary to successfully execute our business model. Newcastle also benefits from its manager's investment and structuring expertise. In addition, Fortress has a significant equity investment in Newcastle.

Investment Approach *(from company's website)*

Newcastle's core business strategy is to invest in a diverse portfolio of real estate securities and other real estate-related assets. The Company's investment philosophy is built around the principles of investing in a moderate amount of credit risk, adhering to strong investment and credit discipline and actively managing the portfolio to achieve its objectives. Fundamental to the investment philosophy is diversification as a means to minimize the risk of capital loss as well as to enhance financing terms.



INVEST

Newcastle's investments include commercial mortgage backed securities, senior unsecured debt issued by property real estate investment trusts, credit leased real estate, asset backed securities and mortgage loans. The Company generally targets securities rated "A" through "BB" with first loss credit protection.

MATCH FUND

The Company seeks to match fund its assets with respect to interest rates and maturities in order to minimize the impact of interest rate fluctuations on earnings, and to reduce the risk of refinancing its liabilities prior to the maturities of its assets. Newcastle makes money by locking-in the difference between the yield on assets and the cost of liabilities (net spread) and optimizing this difference over the life of the financing. The Company also designs its financings to provide the flexibility to manage the credit profile of its assets on an ongoing basis. All of its investment and financing transactions are structured in-house.

MANAGE ASSETS

Newcastle actively manages its credit exposure through portfolio diversification and ongoing asset surveillance and selection. Newcastle has a dedicated team of senior investment professionals experienced in real estate, capital markets, structured finance and asset management. The Company believes that these critical skills position it well not only to make prudent investment decisions but also to monitor and manage the credit profile of its investment portfolio.

Latest Earnings (Third Quarter 2010)

The following is Newcastle's official statement:

"Newcastle Investment Corp. (NYSE: NCT) reported that for the quarter ended September 30, 2010, income applicable to common stockholders ("GAAP income") was \$162 million, or \$2.61 per diluted share, compared to \$50 million, or \$0.94 per diluted share, for the quarter ended September 30, 2009.

GAAP income of \$162 million consisted of the following: \$30 million of net interest income less

expenses (net of preferred dividends), \$37 million of other income, and \$95 million from the reversal of prior valuation allowances on loans net of the impairment on securities.

Other income was primarily related to a gain on the extinguishment of CDO debt partially offset by the decrease in value of the Company's derivatives. In the third quarter, Newcastle repurchased \$48 million of CDO bonds for \$1 million, recording a \$47 million gain on the extinguishment of debt.

During the quarter, the Company increased the over-collateralization excess in CDO's VIII, IX and X by \$59 million despite \$194 million of asset downgrades and received approximately \$17 million of net interest cash flow and management fees from its CDO's.

Nine-Months 2010

For the nine-months ended September 30, 2010, GAAP income was \$460 million, or \$7.77 per diluted share, compared to a loss applicable to common stockholders ("GAAP loss") of \$240 million, or \$4.54 per diluted share, for the nine-months ended September 30, 2009.

GAAP income of \$460 million consisted of the following: \$65 million of net interest income less expenses (net of preferred dividends), \$146 million of other income, \$43 million representing the excess of carrying amount of exchanged preferred stock over the fair value of consideration paid, and \$206 million from the reversal of prior valuation allowances on loans net of the impairment on securities.

Other income was primarily related to a gain on the extinguishment of CDO debt and net gain on sale of investments partially offset by the decrease in value of the Company's derivatives. In the nine months year-to-date, the Company repurchased \$168 million of CDO bonds for \$26 million, recording a \$142 million gain on the extinguishment of debt.

For a reconciliation of income (loss) applicable to common stockholders to net interest income less expenses (net of preferred dividends), please refer to the tables following the presentation of GAAP results."

The second position for February is Sapiens Corp (SPNS: \$3.84*).



Sapiens International Corporation N.V., incorporated on April 6, 1990, is a global provider of software solutions for the insurance industry. Its suite of insurance solutions meets the core business needs of large and small insurance carriers and aligns information technology (IT) with business demands.

The Company's solutions are supplemented by the methodology and consulting services, which address the issues related to the life-cycle of enterprise business applications. It offers solutions to the two lines of insurance business: Life & Pension (L&P) and Property & Casualty (P&C).

The Company's Sapiens eMerge is a rules-based model-driven architecture, that it uses to develop the software products. It enables the creation of mission critical core enterprise applications with little or no coding using agile methodologies. This technology allows customers to achieve legacy modernization and enterprise application integration.

It is based on a multi-level architecture and operates in multi-platform environments, encompassing various hardware vendors, operating system environments and databases. Sapiens eMerge supports databases, such as DB2, VSAM, IMS, DB2/400 Oracle and SQL server. Since Sapiens eMerge exemplifies open systems and cross-platform capabilities, solutions developed with it can be migrated from platform to platform and from database to database. The Company markets the solutions globally through its direct sales force and through marketing alliances with global IT solutions providers, such as IBM Corporation, Microsoft, and iGate.

Sapiens INSIGHT Suite for Property & Casualty

The Property and Casualty Suite is a solution that meets the core business needs of a property and casualty (P&C) carrier. It is comprised of 3 modules: Policy Administration, Billing, and Claims. As such, it can be offered either as a suite or as separate modules. The modularity of the suite allows the Company to support the clients with gradual deployment of core systems, reducing risk and allowing integration into the organization.

INSIGHT for Property & Casualty is a policy administration solution for the Property and Casualty insurance market. The solution will handle the whole life cycle of a policy. Sapiens INSIGHT for billing module is a flexible billing and collections solution for the P&C industry. This Web-enabled solution is designed to enhance implementation, support billing and collection rules and maintain transaction control, accountability for results and assurance of process consistency and continuity. Sapiens INSIGHT for Claims is a solution that manages and streamlines the information flow of claim handling across an insurance provider's entire organization.

Sapiens INSIGHT for Reinsurance

Sapiens INSIGHT for Reinsurance is a solution designed to support insurance carriers in the management of all contracts and activities (of Property and Casualty carriers). This, Web-enabled solution reduces the cost of handling all reinsurance functions through automation, is designed for a

multi- language, multi- currency, multi- company environment.

Sapiens INSIGHT Suite for Life & Pensions (INSIGHT for Life & Health)

Sapiens INSIGHT for Life & Pensions is a framework-based life and pensions solution that serves companies administering life insurance, pension funds, and health insurance and saving plans. It is a customizable solution, and can be accommodated to administer changes in processes.

Sapiens INSIGHT for Underwriting

Sapiens INSIGHT for Underwriting is an underwriting solution for life, health and disability insurance. By using this solution, an insurance company can make underwriting assessments on new cases earlier in the business cycle. The Company markets Sapiens INSIGHT for Underwriting on the basis of licensing and distribution agreements with MediRisk Solutions Ltd., which developed and holds the intellectual property rights to the solution. Sapiens holds a minority interest (approximately 10%) in MediRisk Solutions Ltd.

Sapiens INSIGHT for Closed Blocks

Sapiens INSIGHT for Closed Blocks (known also as Sapiens INSIGHT for Closed Books) is a solution for life and pension insurance companies seeking ways to reduce the cost of maintaining closed books of business, where products are no longer open to new business. It provides customizable solutions that enable companies to administer policies and claims relating to closed blocks, leading to lower business administration and IT costs.

The Company competes with GuideWire, Duck Creek, Exigen, CSC, AGO, Oracle, Camilion, ISI, SOLCORP, Fineos, SunGard, Navisys, Fiserv, Accenture, OneShield, Insurity, Prima Solutions, IDP, The Innovation Group, DRC, HP/EDS, FIS Software, RebusIs, SAP, Falmeyer (FJA) and COR AG Insurance Technologies.

In The End

In the end, I believe that both of these positions have what it takes to deliver strong profits to your portfolios and seeing a cumulative 50% pop by April of 2011 is very probable.

Have a great February.

Tim Fields

*Indicates Initial Recommended Price

Model Portfolio

| Symbol | Last Trade | Change | Volume | Shrs | Holdings Value | Day's Value Change | Price Paid | Gain/Loss |
|--------------|------------|--------------|-----------|------|-----------------|-------------------------|------------|---------------------------|
| FN | 4:00PM EST | 30.83 ↑ 0.83 | 354,678 | 1 | \$30.83 | ↑ \$0.83 ↑ 2.77% | 15.58 | ↑ \$15.25 ↑ 97.88% |
| CMED | 4:00PM EST | 12.78 ↑ 0.08 | 141,232 | 1 | \$12.78 | ↑ \$0.08 ↑ 0.63% | 13.14 | ↓ \$0.36 ↓ 2.74% |
| CBPO | 4:00PM EST | 17.57 ↑ 1.69 | 180,137 | 1 | \$17.57 | ↑ \$1.69 ↑ 10.64% | 10.56 | ↑ \$7.01 ↑ 66.38% |
| ACTS | 3:59PM EST | 2.38 ↑ 0.01 | 33,963 | 1 | \$2.38 | ↑ \$0.01 ↑ 0.42% | 2.00 | ↑ \$0.38 ↑ 19.00% |
| LBJ | 4:00PM EST | 34.85 ↑ 0.55 | 96,802 | 1 | \$34.85 | ↑ \$0.55 ↑ 1.60% | 36.57 | ↓ \$1.72 ↓ 4.70% |
| GRRF | 3:59PM EST | 3.09 ↓ 0.07 | 55,670 | 1 | \$3.09 | ↓ \$0.07 ↓ 2.22% | 3.16 | ↓ \$0.07 ↓ 2.22% |
| AMSWA | 4:00PM EST | 7.06 ↑ 0.08 | 108,350 | 1 | \$7.06 | ↑ \$0.08 ↑ 1.15% | 6.54 | ↑ \$0.52 ↑ 7.95% |
| COHU | 4:00PM EST | 15.07 ↑ 0.03 | 61,751 | 1 | \$15.07 | ↑ \$0.03 ↑ 0.20% | 16.79 | ↓ \$1.72 ↓ 10.24% |
| NCT | 4:02PM EST | 7.73 ↑ 0.51 | 1,191,564 | - | - | - ↑ 7.06% | - | |
| SPNS | 3:59PM EST | 3.84 ↑ 0.05 | 18,189 | - | - | - ↑ 1.32% | - | |
| Total | | | | | \$123.63 | ↑ \$3.20 ↑ 2.66% | | ↑ \$19.29 ↑ 18.49% |