



Friday was another day for the record books as the DJIA plummeted, rose and plummeted again. By the time the day was done it had moved up and down over 1000 points. For the week it finished on a new low, as did the S&P 500 and many global markets. The DJIA had its worst week since 1914—now we are going BACK BEFORE the Great Depression to find comparisons.

It is clear that coordinated buying was going on Friday afternoon. Who all the players were we may never know, but “the bulls” were clearly running a raid on the stock market in order to prevent a 1987 style crash. There is very little doubt in our minds that the PPT was in the game on Friday and it is highly likely that the Fed was among the buyers of the market. I repeat, we may never know that, but the market sure acted that way.

In any event, whoever was among the “bull raiders”, they kept the market from closing down 1000 points or more. They gave lots of people hope we may have found “a bottom” for now. We shall see. Here is another 10 year chart of the market. It is an update of the one I showed you several days ago when we first got the monthly EMA SELL SIGNAL that I told you was “the mother of all sells signals”. That was September 30<sup>th</sup>. The S&P 500 is DOWN 18% since that signal.

No one could have guessed we would collapse straight down, but the signal proved accurate again. The market is now as “oversold” as any time since the bottom of the market in spring of 2003. See the blue circle with the yellow dots on it. The “relative strength” of the S&P 500 is down to 22.62—below where it was at the bottom in 2003. So, if anything, it is possible we could see a bounce in here as the bottom fishers come out and try to find some bargains. Believe me when I tell you there are some.



In the end it would not surprise me to see us drift down, or spike down to the 2003 lows (where I drew the blue horizontal line at the bottom of the chart). If we get that low it would be reasonable to assume we are about washed out.

But the next focal point for the markets is the fate of Morgan Stanley. Its share price is imploding as the market doubts that its deal with Mitsubishi UFJ Financial Group will get done. Mitsubishi had agreed to buy a 21% stake in Morgan Stanley for \$9 billion dollars only a few weeks ago. As of yesterday Morgan's market value had dropped to \$10.3 billion for the WHOLE COMPANY. Morgan insists that the deal will be done by Tuesday, but the two companies are in meetings this weekend. It would not surprise me a bit if Mitsubishi tightens down the screws and insists on a majority stake for a different amount of money. If, by some chance Mitsubishi walks away and Morgan implodes the

markets will collapse again. I believe that Morgan going down would have just as bad an impact on the markets as Lehman has had. Therefore it is also likely that the PPT will try to make another “shot-gun” wedding for Morgan. Who the partner would be is anyone's guess. Most likely candidates would probably have to come from outside the U.S. Saving Morgan Stanley is now the next key to saving the markets.

There is no point on speculating what will happen at this point. If an announcement is made over the weekend that the market looks favorably upon, we could be up nicely on Monday. The reverse is also true. If the market is sweating the Morgan-Mitsubishi deal Monday morning it could be a very ugly day.

In the meantime we took no action in the models in the past couple of days.

On October 9<sup>th</sup> Fidelity announced that it is participating in the Federal Insurance program for money market accounts. Here is an excerpt from their announcement:

“Fidelity Investments and the Board of Trustees of Fidelity’s money market funds have determined that all of Fidelity’s retail and institutional money market mutual funds will participate in the U.S. Treasury Department Temporary Guarantee Program for Money Market Funds.

Fidelity and the Trustees believe that it is in the interests of our fund shareholders to participate in the program. Even though it is highly unlikely that the insurance will be needed for any of our funds, we expect the program to reassure our investors that their money market funds will continue to provide safety and liquidity for their cash investments.

Under the program, the U.S. Treasury will guarantee the share price of any publicly offered eligible money market mutual fund that applies for and pays a fee to participate in the program. The coverage would apply only to investments held in participating money market funds as of the close of business on September 19, 2008.

Our funds continue to invest in money market securities of high quality, and our customers continue to have full access to their investments any time they wish. Most importantly, we have been proactive in keeping our money market funds safe and in protecting the \$1.00 net asset value (NAV), which has always been our #1 objective in managing these funds. That’s what our clients and customers expect from us, and what we continue to be dedicated to providing for them.”

So money market accounts that I have thought were very safe just got safer.

I will try to get one more email out before the market opens on Monday. I have some interesting things to share with you. Got to run for now. Have a great weekend.

PK

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K&A manages accounts with various histories and investment objectives. Various accounts may be managed differently from time to time.

Krsek makes frequent reference to the model portfolios called Hatteras, Mendocino, Halifax, Bonavista, Fresnel and The New World. During 2005 Paul Krsek was appointed Chief Investment Officer of K&A, and as such is responsible to make all trading and management decisions for all client accounts which are being managed according to a specific portfolio model. A description of each of our models can be found on our website at <http://www.kaassets.com/choices.htm>.

Not all accounts managed by K&A are "modeled" accounts. We strongly urge our clients to understand which model, if any, are being used to manage their accounts.

As of July 3, 2007 Lee O'Dwyer joined K&A as a portfolio manager. Paul Krsek and Lee O'Dwyer frequently discuss investment ideas, model portfolio strategies and the investment policies of K&A. But when it comes to the implementation of those policies Krsek is primarily responsible to manage the accounts that fit into each model portfolio description. He generally makes all final investment and trading decisions relative to those accounts that are considered to be "modeled." However, in Krsek's absence O'Dwyer does have the authority to trade all client accounts. He has been actively trading accounts in the various models since joining K&A.

**From time to time K&A receives requests from clients to purchase securities that are not included in the model portfolio to which they are assigned. Effective May 24, 2006 K&A has encouraged clients to hold such securities in a separate account for the client. Because K&A is a "fee only" registered investment advisor" it charges its normal management fee for monitoring such securities in the separate accounts in which they are held.**

**K&A makes every effort to exclude securities that are 'requested by the client' from the modeled portfolio accounts.**

The investment objectives of various accounts and models may be substantially different from one another. Therefore topics or investments mentioned in E-llumination may or may not apply to specific managed accounts and/or models.

Trades or adjustments to accounts mentioned in ELLUMINATION may or may not happen in every account managed by portfolio managers at K&A.

**If you are not satisfied with the investment results in your account it is your responsibility to inform Krsek or Andreae and to discuss possible changes that can be made to the account to accommodate and satisfy your needs.**

The assets held in managed accounts at K&A Asset Management, LLC may include stocks, bonds, cash, commodities, foreign exchange or mutual funds or exchange traded funds (ETF's), money market accounts or limited partnerships that represent the same. They are subject to market fluctuation and the potential for losses. The assets are not insured. The value and income produced by these investment products may fluctuate, so that an investor may get back less than they initially invested.

**The portfolio managers at K&A Asset Management, LLC do not guarantee results.**

Past performance should not be considered an indicator of potential future performance. If you do not consider yourself suitable, either emotionally or financially, to experience volatility and/or losses in financial markets, you should not invest.

**From time to time Krsek lists the simple annual returns of the six model accounts in this newsletter. These accounts are "models" and do not represent the actual results accruing to individual accounts. Simple annual return does not represent "time weighted return" as reported individually to clients in their quarterly reports prepared using Centerpiece.**

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Sincerely,

Paul Krsek  
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