



## Compression

The markets used to take days or weeks to accomplish what now happens in a matter of hours. Yesterday we told you that we thought the U.S. stock market would retrace back to about 900 on the S&P 500, the 8500-8600 level on the DJIA, and 1270 on the Nasdaq 100. Tonight the S&P 500 closed at 907; the DJIA closed at 8577 and the Nasdaq 100 closed below our target at 1244.

Right now the futures are indicating more downside tomorrow. If that turns out to be true our targets will have been violated in a matter of 2 trading days. That is what I mean by “compression”, which saves space and time. Hey, why take two weeks to collapse a market when it can happen in a day.

We also told you that we didn’t think the markets would revisit the INTRADAY lows from last Friday. Cancel that. At this point the odds that we will retest those lows have increased.

The good news is that we bought no stocks today. We did enter an order for a very small position in California’s new Revenue Anticipation Note which is a state and federal tax free note that matures in June of 2009. The note will not price until tomorrow but we anticipate the yield to maturity will be between 4.25% and 4.75%. That is a solid yield for paper with only a 9 month maturity. The purchase was for the Hatteras model, which is our only model that traditional owns tax-free, rather than taxable, bonds.

So we remain allocated to either all cash, or mostly cash and some bonds, in all models as of tonight.

That’s it. Morning will come early. I have a feeling it will be another exciting day. The S&P 500 is now back to being down 38% for the year-to-date.

Take care, 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-Ellumination 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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