



Did the PPT steal the grinch today?

You've heard of the grinch stealing Christmas. Well today it looked like the grinch was going to steal a big chunk of the stock market and it didn't happen. It leads me to believe that the PPT (plunge protection team) stole the grinch. Call me paranoid. Call me conspiratorial but I can't think of a single reason to have bought this market today, and yet someone brought it back from the dead.

In the face of huge losses in Asia last night; the U.S. stock market futures locked down at the open; in the heart of BEAR country; on a Friday LATE IN OCTOBER (primetime for some of the scariest crashes of all time); someone supported this market all day. At least that is my take.

Yet of all the money managers that I am in contact with on a daily basis I know of NO ONE who was doing any significant buying today. So who was the buyer? *By the way, if any of the money managers who receive this were buying heavily into today's sell off please let me know.*

Sure, some of the insurance stocks rallied when it was announced today that the PPT was now planning to make direct investments in some of them, just like they have been doing with the banks. But that is the only real buying I could see that I interpreted as coming from players in the market.

Anyway, things never got as bad today as they might have. Several U.S. stock indexes did make new lows today including the S&P Midcap 400 and the NYSE Composite Index. The Nasdaq Composite made a new intraday low, but closed higher than it did on October 10th.

Maybe I am just ticked off because today didn't go the way I wanted it to. I wanted a 1000 point DOWN day. Lee wanted a 1000 point down day. We were hoping. I have told you things like that before. We need to clean this market out. We need to find a bottom. Maybe we are already there, but days like today, that don't turn out the way they should have, keep both of us on pins and needles.

Right now I have a message for the PPT and it is a simple one. If you are still messing around directly in the market—DON'T! We know they have done it frequently during this market slide. We just don't know if they did it today. But they need to stop. They don't need to stop their bailouts of every institution on the planet. But if they are directly buying S&P futures, or ETF's or anything else to support this market—stop it!

Do you know where some of the BEST SUPPORT IN THE WORLD could come from for these markets? The mountains of cash that K&A and every other money manager we know happens to be sitting on while we wait for clear signs of a bottom. The cash on the sidelines is HUMONGOUS. Here is my plea to the PPT. Get out of the way. Let these markets find their natural bottom so that we can then invest with confidence.

Maybe I am just cranky because I have already been awake for about 12 hours. At about 2:00 a.m. last night I was wide awake and thinking that something bad was happening. I couldn't put my finger on it. But I tossed and turned until near 4:00 a.m. when I finally got up, turned on the TV and saw the futures locked down and the NIKKEI down 10%. That was the end of a very restless night. That is when I cranked out the newsletter this morning. I didn't want you worrying. I knew that Lee and I would be doing enough of that for you.

As we close out the week I am feeling that the market direction is quite unresolved. There are SCREAMINGLY cheap stocks available. It is unbelievable how cheap some of them are. But we all know that each time we have thought stocks were dirt cheap and tried to put cash to work, they have tended to get cheaper. So we wait for resolution.

We did buy a small allocation to a JPMorgan bond today for Mendocino and Pt. Reyes. We got a small discount from par value on the purchase. The maturity is 06/01/11. The yield to maturity is 5.83%

We got stopped out of Caterpillar (CAT) in three models today, so our small exposure to equities got even smaller.

The models actually faired very well today as you would imagine with their small exposure to equities.

Next week is likely to be just as interesting as this week.

Gold rallied today. I told you it would as the dollar took a breather. I suspect that some gold was bought today just out of sheer terror. For the intermediate term, one to three months, there are no indicators that we currently see that tells us that gold is a good buy in here. We keep monitoring the situation.

OPEC announced a production cut of 1.5 million barrels and yet oil sold off almost 5% on the day. We have a sneaking supspicion that oil will drop below \$60 before this move is over.

Natural gas prices edged down to \$6.21 this week and are getting interestingly close to breaking below \$6.00.

Copper prices continue to implode and fell below \$1.70 today.

Interest rates moved down and most bond prices moved up this week.

REALMONEY.COM reported today on some very important PPT action that will kick-off next week that should provide significant support to the financial markets:

There remains a substantial arsenal of action already announced, but yet to be deployed by the Federal Reserve and the Treasury Department, the most notable of which is the Treasury's \$700 billion Troubled Asset Relief Program (TARP).

It can be argued that once the money is deployed, the financial markets will fare much better, particularly because at the present time no significant offset to the massive de-leveraging taking place in the financial system exists.

On Monday, a substantial program will be initiated by the Federal Reserve, its Commercial Paper Funding Facility (CPFF). The CPFF will be a special-purpose vehicle funded by the Fed at its target federal funds rate, now 1.5%, purchasing eligible 3-month dollar-denominated commercial paper at a spread over the 3-month overnight index swap rate. The Fed said that roughly \$1.3 trillion of the \$1.5 trillion of commercial paper outstanding would be eligible for the program. This is an enormous backstop.

Further backstopping the CP market is the Fed's Money Market Investor Funding Facility, announced on Tuesday. The MMIFF will fund special-purpose vehicles with up to \$540 billion, with the specific intention of enabling the SPV to purchase eligible money market instruments from eligible investors, including money market mutual funds.

By blanketing the commercial-paper market, which has contracted about \$365 billion over the past six weeks to \$1.449 trillion, the commercial-paper market will function better, and it will stop the surge in the corporate sector's tapping of bank credit lines.

In turn, more cash will be available for interbank lending and help the financial system work better. The credit crisis first saw massive impact by hitting the commercial-paper market in the summer of 2007. Perhaps it will see its end begin in this critical market

This report was contributed to REALMONEY.COM by Tony Crescenzi.

Tony Crescenzi is the chief bond market strategist at Miller Tabak + Co., LLC, and advises many of the nation's top institutional investors on issues related to the bond market, the economy and other macro-related issues. At the request of the Federal Reserve, Crescenzi is a regular participant in the board's Livingston Survey of economic forecasters. He is also the author of the revised investment classic, *The Money Market*, first published in 1978 by Marcia Stigum, and *The Strategic Bond Investor*. Crescenzi also is the founder of Bondtalk.com, a popular Web site covering the bond market and the economy.

Another crazy week is in the record books. The S&P 500 is now down 40% for the year and roughly 50% from its top.

We wish you very pleasant weekend.

All the best, 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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