



End game shaping up?

Friday I was complaining because I wanted the market down 1000 points on the DJIA and we ended down only 300. We got 200 more today and it feels like we could easily get 200 more tomorrow. People are really getting disgusted and each new day seems to end with a selling climax.

Bloomberg and CNBC are already talking about the debacle that might happen in Asian trading tonight.

We took no action in any of the models today. Instead we made a short list of the 20 stocks we'd love to own. All of them blue chips selling at ridiculously low prices—that just keep getting lower. We intend to narrow that list to our top 10 over the next day or so.

No one can say for sure but it is starting to look like this is a week when we might see cascade selling into the close every day.

The markets are now discounting at least a ½ percent (50 basis point) Fed Funds rate cut this week. If that happens the market might stop falling for a day but a Fed Funds rate cut can hardly support the market right now.

What will support the market, at some point, is that we run out of sellers. We are getting there. I have not seen stocks this cheap in my ENTIRE CAREER, with one possible exception.

I was with Angeles Corporation when the market crashed in 1987. The truth is that I wasn't in the office the Friday and Monday of the crash. I was hiking in Yosemite with a friend of mine. We didn't get back to the floor of the valley until Tuesday after the crash. We noticed a huge line at the one pay phone that was available. I walked up to the last person in line and asked what was going on. He handed me a copy of the Los Angeles Times and uttered one word, pointing to the headline on the front page, "THIS".

Stocks Plunge 508 Amid Panic Worst One-Day Decline Almost Doubles 1929 Drop

I still have that newspaper. My friend and I took the paper and opened it to the stock tables in the back. We couldn't believe what we were seeing. We couldn't believe the bargains. We actually dropped down on the ground and spread the paper out in front of us. We were laying on the ground and circling the symbols of the stocks we wanted to buy. We were using a little pencil that I borrowed from one of the people in the line at the phone. We then got in line and waited our turn to make a call back to the office to see what was going on and our money managers were already buying many of the positions that we identified in the paper. That was the finest buying opportunity that has ever come along in my career, and we are headed for another one.

All the best, PK

Paul Krsek
MANAGING MEMBER & CHIEF INVESTMENT OFFICER
K&A Asset Management, LLC
702 Trancas Street, Suite 200
Napa, California 94558

(707) 603-2672 Office
(707) 486-7333 Cell
(707) 224-2521 Fax

paul@kaassets.com
www.kaassets.com

Disclosure and Disclaimer:

ELLUMINATION is the proprietary newsletter written for clients, friends, and affiliates of K&A Asset Management, LLC (K&A).

Paul Krsek is the sole author of ELLUMINATION. While the views and representations found in the newsletter generally reflect the attitudes and opinions of the K&A Asset Management, LLC members and staff, Krsek writes without editing and therefore is solely responsible for the content and opinions contained in ELLUMINATION.

ELLUMINATION does not represent the opinions of Fidelity, Fidelity Institutional Brokerage Group, NFS or anyone employed by Fidelity in any capacity. Neither Fidelity, Fidelity Institutional Brokerage Group, nor NFS, nor anyone employed by Fidelity in any capacity has participated in the creation of ELLUMINATION and they are not responsible for the contents or distribution of ELLUMINATION.

ELLUMINATION is written to provide general information to clients, friends, and affiliates. The contents of ELLUMINATION are not to be taken as individual investment advice. No investment decisions should be made based on the opinions or information offered in ELLUMINATION.

K&A does not represent that the information in ELLUMINATION is accurate or complete and it should not be relied upon as such. Opinions expressed herein are subject to change or modification without notice.

The investment portfolio models or management services mentioned in ELLUMINATION may or may not be available in some states, and they may not be suitable for all types of investors.

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.

This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy any securities or other instruments mentioned in it.

Sincerely,

Paul Krsek
Updated: August 13, 2007

