



Another day for the history books

Today marked the **second straight 4%+ decline** in the S&P 500, a feat only matched by Black Monday (October 19, 1987) since 1950. Using the **DJIA** and its 110-year history, there were 13 other precedents.

Sentimentrader.com tells us that “the Dow was up a month later 12 of the 13 times, averaging +10.8%. The average maximum gain was a heady +15.9% during the month-long trades.”

One month following Black Monday in 1987 the S&P 500 was up 6.6%.

We know that days like yesterday and today take your breath away. We know they are scary. But we actually added a little exposure to the equity markets today. Not much. In fact no more than an extra 3.75% in any one model. But we nibbled around the edges. We also hedged out all of what we bought today. That simply means we put on a trade in each case that will go up if what we bought today goes down.

We did not buy into the market rally that took place on Tuesday. We did very little buying yesterday. One of the buys from yesterday was the **UltraShort Financials ProShares (SKF)**. That is an index share that acts inversely to the index of banks and financial companies that it holds. In other words if the bank shares go down, the SKF goes up. It went up 12.38% today so we feel pretty good about that trade for Hatteras, Mendocino, and Fresnel. It helped dampen the impact of the downdraft in stocks today for those three models.

Early today we bought the **CurrencyShares Japanese Yen Trust (FXJ)** for Fresnel and it acted as a bit of a cushion against the U.S. stock market decline today.

But through the course of today we bought a few stocks; many of them within 10 minutes of the close today. All stocks that were purchased today were already in the models and we were increasing the size of the positions. We told you in a previous newsletter that we started out all the positions at very small sizes to that we could add to them as opportunities arose. We saw today as one of those opportunities.

Now, tomorrow could be a scary day too. October jobs data will be released by the Bureau of Labor Statistics at 5:30 a.m. (PST). People are bracing for the worst. If the report is horrible it is quite possible the equity markets could test recent lows during the day tomorrow. The S&P 500 closing low, from October 27th is 6% below tonight's close. If we got there tomorrow it would be unprecedented in history, but what else is new!

The real point of this communicate today is simple. It is to tell you we did a little buying and a little hedging. We are expecting the equity market to put in another short term bottom in pretty short order. Don't get confused—we are not **CALLING THE BOTTOM**. We are simply saying that the market is **QUICKLY** getting very oversold again and may get much more oversold tomorrow. We are carefully trying to get into position to take advantage of the next **SNAP BACK RALLY**. If history can be our guide we seem to be coming up to a very likely set up for a sustainable multi-week rally. If we see this set up materializing we will remove the hedges that we have put in place to capture part of the rally.

We will keep you posted.

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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