



WOW!

If we had any doubt about the trendline for stocks it was removed today. The trend is confirmed and it is DOWN. All major, and most minor, stock averages that we follow made new closing lows today. That is all the confirmation we need. This is a chart of the S&P 500, but it could easily be any of the averages. They ALL broke down either yesterday or today.

We consider the technical damage that has been done to the markets in the past two days to be severe. It frankly dashes all hope of a significant move to the upside.

If you remember our four options for getting back into the market you can now forget numbers 2,3, & 4. This is an OPTION #1 SCENARIO. The markets are clearly headed to new lows, and by the time this move is finished it is likely to rival the 1929 crash in magnitude, or be worse.



On October 16th we showed you this table. The levels represented how far the market had to fall to compare to two of the worst downturns of all time. As of tonight we have taken out 8000 on the DJIA and are way below the 850 level on the S&P 500 (SPX), so we have already exceeded the magnitude of the 1973-74 downturn. The only remaining historical comparison is the crash of 1929.

	<i>Collapse projected by 1929 comparison</i>	<i>Collapse projected by 1973-74 comparison</i>
<i>DJIA</i>	7450	8000
<i>S&P 500</i>	785	850



Financial stocks got absolutely HAMMERED today. I haven't seen punches like that since I tried a little full contact Karate fighting in the very early 1980's. JP Morgan was down 11% on the day. Goldman Sachs is back to its ALL TIME low. The SPX is now down 45% on the year and the Nasdaq Composite is down almost 48%. Today was a knockout blow to any remaining hope that the "October lows" will hold.

Even the Dow Jones Transportation Average (DJTA) made a new low today, on a day that oil touched \$53 per barrel. That really caught our eye. If the DJTA can't advance as oil is collapsing you have to stand up and take notice.

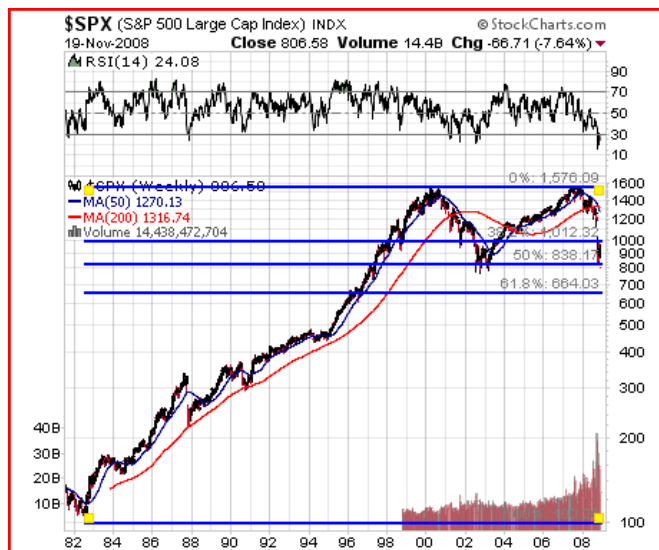
All this begs the obvious question, **“Paul, you were basing hopes for a rally on the current levels of support holding and they didn’t? Now what?”**

- Rallies can and will happen, but any rally will obviously be starting from a lower level and is more likely to be quite contained. Our high target for any S&P rally from here would be 925-950 (TOPS). If the market goes lower before a rally starts then the upside target would be reduced.
- Rallies will fail and the trend continues to be downward.
- Today was such a convincing collapse that the only thing that is prudent now is to consider how much lower these markets will go.

The only “support” left that we can see for the major U.S. averages would be the closing lows of October 10, 2002, which was the low point of that bear market. Those numbers are 803.92 for the SPX and 7533 on the DJIA. The SPX could easily break that barrier tomorrow.

The “intraday” lows for those averages on October 10, 2002 were 768.67 for the SPX and 7177 for the DJIA. That would be the last line in the sand for any support from the “modern era” of the markets. If we hit those numbers the collapse of 2007-2008 would be greater in magnitude than the 1929 crash.

Remember that we calculate that a fall to 785 on the SPX and 7450 on the DJIA would about equal the tumble of 1929. So we are clearly close to making history—and not in a good way.



The last line in the sand is 665 on the SPX and 5900 on the DJIA. Those represent the 61.8% retracement of the entire bull market from 1982-2007. That would be truly ugly but now has to be considered as a real possibility.

So what do we do now?

Believe it or not we actually had two models that went UP in value today. They are Fresnel and The New World (TNW). How is that possible? They are both now actually leaning ever so slightly to the short side of the market. That means that they own more positions that make money by going down than they do positions that benefit by going up.

We told you yesterday that we had significantly increased the short positions in Hatteras, Halifax, Mendocino and ETF, but they are all slightly “net long” the market. They all lost about .5% today. (That is ½% NOT 5%) Tomorrow we will bring them in line with the configuration of Fresnel and TNW in order to control losses and put them in a position to make money as the markets continue this schmeissing.

Scary Numbers, More Certainty

There are inflection points in markets and today was one of them. It removed a lot of short term uncertainty. We are not conflicted about what to do.

Rather than trying to set up for the rally that is now no longer likely to be a significant event we need to be set up to profit from a continuing decline in the market.

We all know that none of our targets for the market are cast in stone, but as I have stated emphatically in this letter, the continuation downward is now more certain.

	SPX	DJIA	Downside Left for SPX	Downside Left for DJIA
Today's close	807	7997		
October 10, 2002 closing lows	803	7533	0.50%	5.80%
Collapse Equal to 1929 Crash	785	7450	2.73%	6.84%
October 10, 2002 intraday lows	768	7177	4.83%	10.25%
61.8% Retracement of 1982-2007 Bull Market	665	5900	17.60%	26.22%

Here is a table to make it easier to see and interpret the potential of that downside.

Unbelievable opportunity is clearly in site now

There are only three other times in my career that I can ever remember a set up for making more money from the stock market. We are nearing the 4th time and this one is undoubtedly the BEST set up of them all.

The first time was in the very early 1980's when I first joined Angeles Corporation. We were just ending the bear market that had lasted from the late 1960's to 1982. We didn't even know it was ending. NO ONE was interested in stocks. You literally could not give them away. No one had made any money in nearly 20 years. Who cared? But prices were unbelievably cheap. Over the next 5 years the market went straight up.

The second time was after the Crash of 1987 and I have already related that story to you in a previous newsletter.

The third time was in 1990, just as I was starting my business here in the Napa Valley. Bank stocks were all available for single digit prices. Citi sold for \$5.00 (and is almost back there now). Again, no one wanted to own stocks—just as the great BULL MARKET of the 1990's was about to get under way.

The fourth time is almost upon us. In fact you can see it on the closing prints of stock prices each day. Lee and I just shake our heads in disbelief. The prices are dirt cheap and the dividend payouts are HUMONGULUS! That is why we have been nibbling in here.

But I didn't say that prices are ROCK BOTTOM. That is the opportunity that is just ahead!

More tomorrow.

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 Andraea 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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