



K&A Asset Management, LLC

Daily Illumination Newsletter

Best two days for the stock market since October 1987

Over 11% was added to total U.S. stock market capitalization in two days; actually in one day (today) and the last 45 minutes of trading on Friday. The market seems to have celebrated the announcement of a financial team that looks great on paper, but doesn't take office for two more months; and the resurrection of Citigroup by the PPT.

It was ridiculous in many ways and also ironic in that the rally started on Friday, the day that the FDIC closed down three more banks. I'll bet you never even saw that headline.

"In the biggest number of bank seizures yet on a single day, the Federal Deposit Insurance Corp. and state regulators have shut down two banks in Southern California and one in Georgia.

The FDIC said late Friday that U.S. Bank, based in Minneapolis, has acquired the banking operations, including all the deposits, of Downey Savings and Loan Association, F.A., Newport Beach, Calif., and PFF Bank & Trust, Pomona, Calif.

The combined 213 branches of the two organizations will reopen as branches of U.S. Bank.

As of Sept. 30, Downey Savings had total assets of \$12.8 billion and total deposits of \$9.7 billion. PFF Bank had total assets of \$3.7 billion and total deposits of \$2.4 billion, according to the FDIC.

In addition to assuming all the deposits from the two California banks, U.S. Bank will purchase virtually all their assets. The FDIC will retain any remaining assets for later disposition."

MarketWatch.com, November 22, 2008



We now know that none of the anointed banks will be allowed to fail no matter how much trouble they get into—or make for you and me. The anointed include Wells Fargo (WFC), US Bancorp (USB), Citigroup (C), Morgan Stanley (MS), Goldman Sachs (GS), Merrill Lynch (ML), Bank of America Corporation (BAC), Bank of NY Mellon (BK), and State Street Corporation (STT).

Going forward you can count on these companies to get bigger and bigger as many other banks shrink or simply disappear. To state the obvious, if you want to own a bank stock in this market it had better be one of the anointed.

If there was good news in today's rally it is that the S&P 500 cleared first serious resistance to a sustained move back up. That "resistance" was cleared when the S&P 500 popped above the 840 level. Closing above 850 today gives it a set up to try for 900, at which point it would meet the next serious resistance. Charts of the DJIA, the Nasdaq Composite, and the Nasdaq 100 look much the same. On the other hand charts of the Russell 2000 and S&P Midcap 400 did not clear current resistance.

The other very important perspective on today's rally is that all it did was put us back up against the October lows. Don't be surprised if a lot of people who have been recent buyers of this market use this opportunity to bale.

So nothing much was accomplished in the market today. Nothing has been resolved. The economic news still stinks, even if the markets have chosen to ignore it. The Bulls and Bears continue to duke it out.

It remains a bear market. The longer term trend is still down.



Hatteras, Mendocino, Halifax, Fresnel and The New World were all up today, despite the fact that they are net short the market. How does that happen? The stocks they own, in the aggregate, went up more in value today than our index short went down.

We did a "pairs trade" for Fresnel today that worked very nicely. A "pairs trade" refers to making a bet on one security that will go up while betting that another one, with which it is "paired" goes down. The New World also had a nice day just on the strength of its "green" investments. They worked today. The New World has tacked on almost a 6% gain over the past two trading days.

Pt. Reyes no longer owns stocks so it did not participate in the rally today. ETF was actually down by a "rounding error".

What did today mean in the big scheme of things? Not much. We are still waiting to see the credit markets get moving again before we get too excited about any one or two day rally. No amount of money flowing into Citigroup today changed the credit markets significantly. They are still frozen. We'll all be back tomorrow.

Take care, PK

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Disclosure and Disclaimer - Updated last on August 13, 2007 by Paul Krsek:

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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-illumination 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.