K&A Asset Management, LLC
Daily Ellumination Newsletter

Just about right

The pullback today in equities should have been expected. It was quite orderly and well contained. It gave us a chance to add a small allocation to the long side of the equation. We increased the allocation to stocks in all the models today, except Pt. Reyes. The risk is obvious. If we are wrong about the structure of the current rally this will increase losses related to equity ownership in the various models, except Pt. Reyes.

We made the decision today that the additional long exposure will be accomplished by adding the Ultra S&P 500 Proshares (SSO). We are not interested in adding individual equities to the models at the present time because we doubt seriously that we will be holding this additional long exposure for more than several weeks at the most. Besides it is a “market” rally that we are anticipating and not all stocks will participate equally. Therefore is it not worth trying to pick individual stocks.

Even after today’s pullback all the major averages held above their declining trend line. Most major averages are bumping up again their 50-day Simple Moving Averages. That is seen as the next “resistance” level that must be cleared for the rally to continue up to the 965-1000 level that we think is likely. That hurdle is currently at 925.61 for the S&P 500.

Bond Market Bubble

The bond market has its own drama going on right now. The next big bubble is forming in the bond market. It has formed up quickly and is likely to pop just as quickly. It is isolated to the Treasury bond market.

We have initiated a position in the UltraShort Lehman 20+ Treasury ProShares (TBT) in all the models, except Pt. Reyes. The TBT will rise as the TLT (20 year Treasury) falls.

That's it for tonight.

All the best, PK

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