



K&A Asset Management, LLC

Daily Illumination Newsletter

So Far So Good

Last night it seemed as if the stock market was going to receive a 1-2 combination punch from the Senate by saying no to the Big 3 and the news of the alleged \$50 billion Madoff fraud. Everyone was braced for the worst today, but it never happened. Mr. Market faded the combination of blows and finished on a high note. In doing so it continued shaking off bad news as has been its tendency all week. It keeps our bullish year-end thesis intact. This is one of the things you look for when anticipating a change in trend, even if it is temporary. When stocks stop going down in the face of VERY BAD NEWS it tends to be a sign that they are really sold out and ready to turn back up.



But there is still much work to be done technically to move this market higher. You can see the horizontal blue line I have drawn at the top of the chart. The market has spent months hanging out below the 50% line on the Relative Strength Index. You can see for yourself that it has not been able to move above that line since the precipitous decline began in September. We need to see it move up to sustain a rally.

I have highlighted the last five trading days inside the blue circle. It doesn't look like much to get excited about does it? But the fact that we are still holding above the declining trend line 5 days after the breakout is a real change in market tone.

All the major U.S. averages that we follow have very similar charts, with one exception. The Dow Jones Transportation

Index has a terrible looking (very bearish) chart. So we are keeping our eye on the Transports as the "odd-index-out". Otherwise charts and market action are certainly more positive than they have been in a LONG time.

We increased exposure to equities in all the models this week, except Pt. Reyes.

Gold is acting well

I believe I told you that we have added a small allocation to gold (GLD) in Hatteras, Mendocino, Halifax and Fresnel. That is because GLD got an actionable buy signal on the daily charts that we use in our proprietary trading system. Today GLD got a preliminary buy signal on its weekly trend chart.

For those of you who are not chartists let me explain that a bit. We use all sorts of charts here to determine our trades and investments. Charts that show movement in the price of a security over very short periods of time can be used for trading but they show us nothing about significant changes in longer term trends. We use charts that track changes by intervals that include 1 minute, 5 minutes, 10 minutes, 15 minutes, 30 minutes, 60 minutes and daily for our trades. Charts that show changes over complete weeks and months give us clearer pictures of longer term trends.

When we see a “buy signal” on a daily chart, that simply means that on a given day the trend moved from down to up, after being down for some length of time. A change of trend on a daily chart can be enough to get us interested in a “trade”, like with GLD.

But now we are seeing the beginning of what might be a more major change, namely a “buy signal” on the weekly trend chart. That gets us more interested. If we get what we call an “actionable buy signal” on the weekly chart we will be adding to gold holdings in the models that already own it. We will also be adding it to the ETF model.

Changing the name of the ETF model

How come all the models have nice names except the ETF model? Well that is changing. From now on we will be referring to the ETF model as the KEY WEST model. We are adding a page to our website in which we describe the KEY WEST (formerly ETF) model.

Building out the bond allocations

We have been buying individual corporate bonds for all the models except KEY WEST and THE NEW WORLD this week. We are focused on corporate bonds because the rates are terrific. We are buying very high quality bonds issued by Fortune 500 companies with durations of 1 to 5 years with yields to maturity of 5% to 8%.

The Mendocino model is now about 55% allocated to bonds and we will be stopping our purchases for that model at that level. That is a little higher than we indicated in a previous letter and we intend to level it off right there. We will not be buying more bonds for Mendocino at the present time.

We will continue adding to the other models to bring them up to their full allocations before the end of December.

That' it. Have a great weekend.

All the best, 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-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.