



K&A Asset Management, LLC

Daily Illumination Newsletter

Looking forward to 2009 (Part 2)

Will 2009 be a golden year?

From 2004 to 2007 K&A clients made a lot of money owning gold in the form of the streetTRACKS Gold Trust Shares (GLD). Those were years in which EVERYTHING seemed to be going up in value. The stock market was on a tear. But the K&A models always outperformed the stock market, as measured by the S&P 500, because we owned gold and oil, in just the right amounts to “beat the market”.

During those years we seemed to trade gold almost perfectly. In fact our single best trade of all time was selling all your gold on the day it peaked (temporarily) in April of 2006. It was like getting a hole in one on a 220 yard par three in golf. It seemed almost impossible but we did it. We relished that trade for quite a while.

We got back into gold (GLD) later and rode it toward a new high. In 2007 we sold the last of the GLD and we haven't been back in it since, until a recently.

The reason that we did so well in the GLD from 2004 to 2007 is that trade is extremely easy for us. It is a purely technical trade. That simply means that we trade “buy” and “sell” signals on the charts we track for the security known as GLD. We don't have to do a whole lot more analysis.

PLEASE UNDERSTAND THESE FACTS ABOUT TRADING GLD (gold).

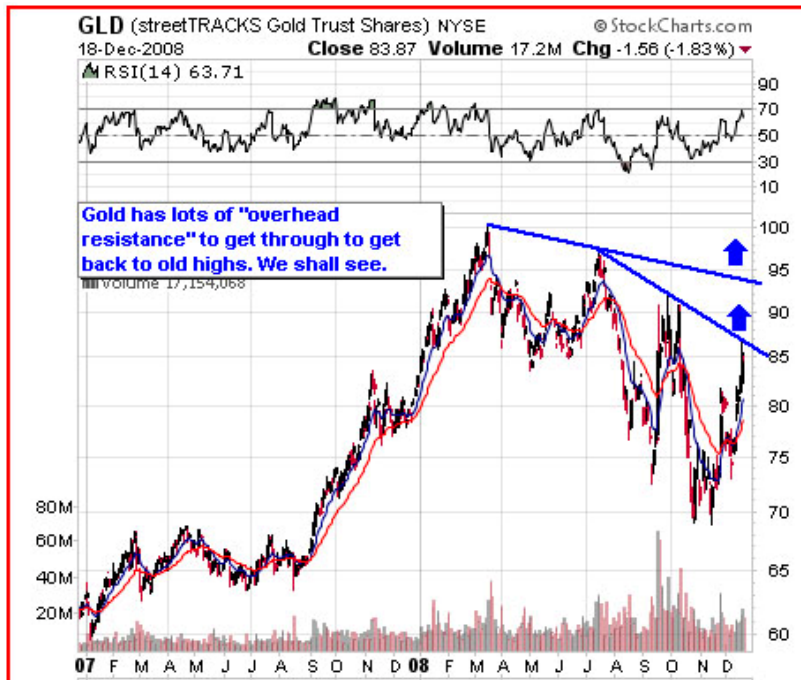
Gold is inert. It is a lump. It does nothing. It doesn't produce anything. It doesn't think. It doesn't make cars, produce electricity or manufacture chips. It has no inherent value (sorry gold bugs, but it doesn't). Yes, it is used in jewelry, but that is not relevant to trading gold as far as we are concerned.

It can't be influenced by an honest CEO or a dishonest CEO or a good or bad business plan. No one has to come to its rescue. It needs no bank. It has no debt or credit lines. It does nothing but go up and down in waves that are pretty simple to interpret using our charting and trading signal methodology.

Some analysts try to overlay lots of “supply and demand” data on gold but we have learned that perspective is not very useful. We simply want to own it when it is in an uptrend, and not own it when it is in a downtrend. It is just that simple.

A few weeks ago we got the first valid short term (daily) buy signal that we have seen on gold (GLD) in several months and we initiated very SMALL positions in several of the models. That signal remains in place today. We will continue to chart the rise and fall of gold (GLD) and we will act according to our technical signals.

If the buy signal goes away we will sell the gold (GLD). Therefore there is a possibility that (GLD) will play no significant role in the performance of the various models in 2009. But gold (GLD) is now trading on a buy signal that seems to be getting stronger by the day. If that signal matures and gets more substantial



through confirmation on weekly and then monthly charts then gold (GLD) could become a very substantial part of the portfolios in 2009.

GLD has already bumped up against the declining trend line that links a series of “lower highs”. Lower highs are not bullish signals. But all GLD has to do is punch above the trend line and the trend is no longer in place. **That could happen tomorrow!**

GLD does tend to move inversely to the dollar and the dollars upward momentum has stalled out, at least for now. If the dollar does trend lower, gold is likely to

have plenty of room to move upward. We will simply trade it as we did very successfully from early 2004 into 2007.

If we believed in “fundamentals” related to gold (GLD) we would suspect it will work its way back above \$1000 per ounce in 2009. But we aren’t challenging ourselves with that assumption. We are just trading the chart pattern, which means there is a small allocation now that could conceivably grow into a very large allocation.

It might surprise you to know that the GLD is actually UP for 2008 at this point. It closed 2007 at \$82.46 and is at \$86.56 (December 29th). That is not much of a gain, but given this year, it is stellar when compared to most other investments. The GLD trade that we currently have on is profitable in all the models that are participating.

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-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.