K&A Asset Management, LLC
Daily Ellumination Newsletter

It is a new year and everything is changing in Washington, BUT NOTHING HAS CHANGED IN THE MARKETS-at least so far.

U.S. markets were closed Monday for the commemoration of the Martin Luther King holiday. He would have been 80 years old. He never got to see his dream come true, but there is some wonderful justice in the fact the Barrack Obama becomes President of the United States one day following Dr. King's 80th birthday. I was fortunate enough to see Dr. King when he was alive and have been to Ebenezer Baptist Church, his home church, in Atlanta. I am often circumspect in these newsletters for an obvious reason, but not today. I was only 20 years old when Dr. King was killed and I wept like a baby. I can think of no more egregious offense against us as a people than his assassination. It has haunted me for 40 years. It was so senseless. It was the petty act of a deranged human being. As human beings we are so often our own worst enemies.

There can be no doubt that Dr. King believed an inauguration like the one that happened today would take place at some point in the history of the USA. I am glad it has happened in my lifetime. I am happy we have put this stepping stone on the road to racial and social equality behind us.

Mr. Obama takes over one of the biggest messes ever created by mankind. Yesterday, Warren Buffett said that we are facing an “economic Pearl Harbor”. Buffett, the chairman of Berkshire Hathaway Inc., said Barack Obama is “the absolute right commander in chief” to guide the country through the financial crisis.

He can “convey to the American people what needs to be done, not to expect miracles, that it's going to take time,” Buffett, 78, said in his NBC interview.

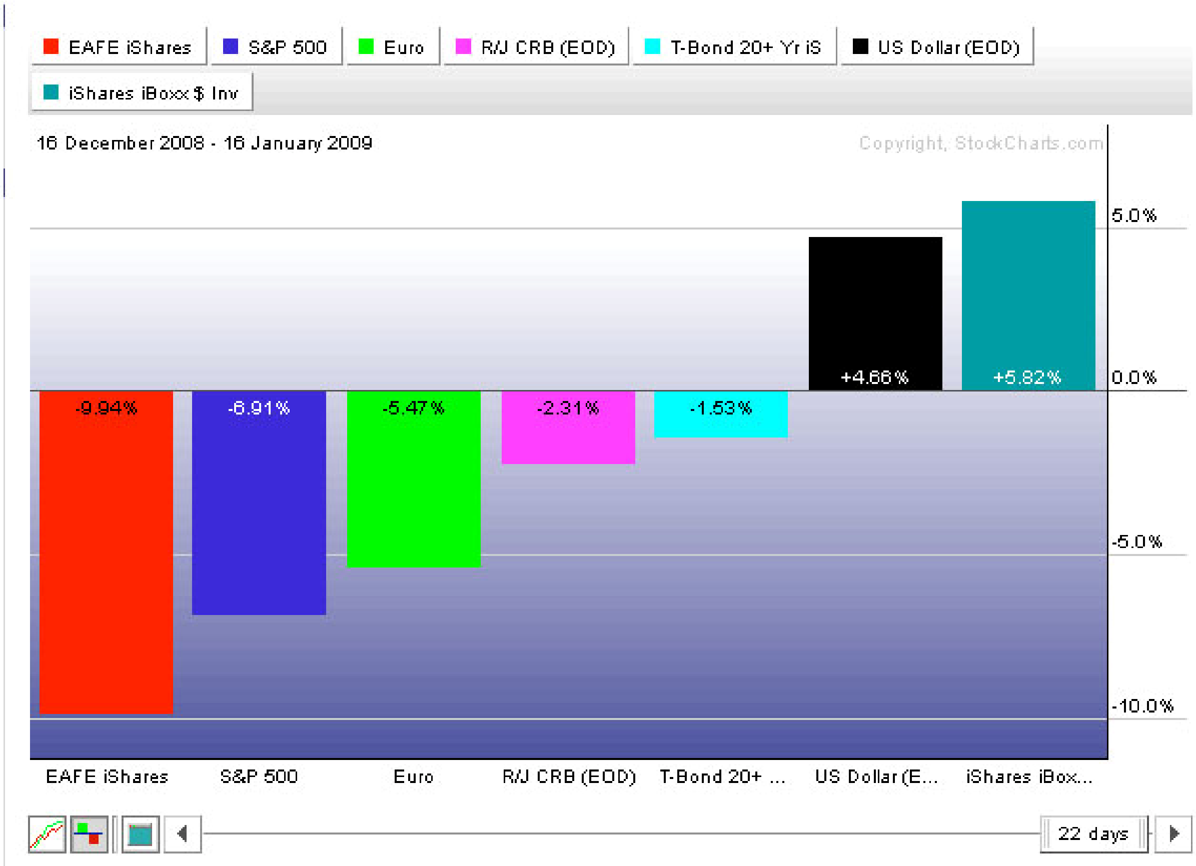
Buffett went on to say that the economic slump is the worst since World War II, though not as severe as the Great Depression. He said “it's never paid to bet against America,” and that the country would come through the crisis. “But it's not always a smooth ride.”

Based on what we are seeing in the markets during the first half of January, one has to reach the conclusion that while big changes are taking place on the American political scene, not much has change in the markets yet. We, like Mr. Buffett, are confident that the markets will eventually sort themselves out—but not quite yet.

While we were closed on Monday, stocks fell in all 18 Western European markets. Today they collapsed here. The S&P 500 is now down 11% in 2009.

Yesterday, **John Murphy's Market Message reported**, “A catalyst for European weakness was a 67% plunge in the Royal Bank of Scotland. Britain took another shot at fixing its financial system by offering to buy toxic securities. British stocks fell nearly 1%. U.S. stock futures are down as well. [Source: Bloomberg.com]. Monday's weak foreign action appears to be continuing the trend seen over the last month. With the dollar rising, foreign shares are falling faster than those in the U.S. Commodity markets remain weak as money continues to flow into bonds."

Here is a copy of **Mr. Murphy's** chart showing the results for 7 major markets over the past month.



Mr. Murphy's commentary regarding this chart is quite direct:

"MONTHLY PERFORMANCE BARS CARRY NEGATIVE MESSAGE, The performance bars in the chart show where some money has been coming from over the last month and where it's going. Starting from the left, the weakest markets are **EAFE iShares** (red bar) and the **S&P 500** (blue bar). That shows that foreign shares have been falling faster than those in the U.S. Part of the reason for that is weakness in foreign currencies like the **Euro** (green bar) and strength in the **U.S. Dollar** (black bar to the right). The rising dollar is also keeping the **CRB Index** (pink bar) under pressure. The light blue bar shows that **Treasury Bonds** have experienced some profit-taking over the last month, while investment grade corporate bonds (last bar to the right) are attracting some fixed income money. Unfortunately, these intermarket relationships still paint a negative picture for global stocks and commodities."

THE VERY GOOD NEWS FOR 5TWEALTH clients are that our largest holdings are in corporate bonds and we intend to keep it that way for the foreseeable future. In fact it is quite possible that corporate U.S. bonds could turn out to be the #1 performing asset class this year.

We are in the process of increasing the Pt. Reyes models allocation from 80% corporate bonds to 90%. We should have that complete by the end of this month. All other models are maintaining their current allocation to corporate bonds.

Global and U.S. stock markets

So far 2009 has been a disaster for stock markets around the globe. The U.S. stock market is off to its worst start ever. Ironically, it was only about 10 days ago that the market had the best technical set up we have seen in months. On Tuesday, January 6th all the major U.S. stock averages got what we call our 5T proprietary buy signal. It was the first time we had seen it since April of 2008. The buy signal lasted a whole four days, and was gone again. Since January 9th the S&P 500 has tumbled 11.4%. Banking stocks have been crushed.

We had a few equity positions in the models that have almost all been sold or stopped out.

As of tonight Hatteras has no exposure to the stock market. Mendocino and Fresnel own one small position in Hatteras Financial, and no other stocks. Halifax has a small position in Pfizer and no other stocks. The New World owns small positions in two small cap stocks, and no other exposure to equities. Key West (formerly ETF model) has no exposure to stocks.

The odds now favor a continued sell off in equities that could easily result in a test of the November 20, 2008 lows. Those numbers, on a closing basis are as follows:

S&P 500=752
Dow Jones Industrial Average=7552
Nasdaq Composite=1316

Gold

We see as many bulls on gold as we see bears. The consensus is quite split. We have told you several times before that we buy gold in the form of the GLD. It is currently on a daily 5T proprietary buy signal. That is why we maintain a small, and profitable, position in GLD in Hatteras, Mendocino, Halifax and Fresnel. If that signal disappears, as it did with equities, we will sell the GLD. If we get a stronger signal on a weekly chart of the GLD we will add to the position. It is a new year.

All the best, PK

Paul Krsek
MANAGING MEMBER & CHIEF INVESTMENT OFFICER
K&A Asset Management, LLC
702 Trancas Street, Suite 200
Napa, California 94558
(707) 603-2672 Office
(707) 486-7333 Cell
(707) 224-2521 Fax
paul@kaassets.com
www.kaassets.com

Overcoming the Crisis One Day at a Time

K&A Asset Management, LLC
Registered Investment Advisors
702 Trancas Street, Suite 200, Napa, CA 94558
(707) 224-1340 www.kaassets.com

Paul Krsek is the sole author of ELLUMINATION. While the views and representations found in the newsletter generally reflect the attitudes and opinions of the K&A Asset Management, LLC members and staff, Krsek writes without editing and therefore is solely responsible for the content and opinions contained in ELLUMINATION.

ELLUMINATION does not represent the opinions of Fidelity, Fidelity Institutional Brokerage Group, NFS or anyone employed by Fidelity in any capacity. Neither Fidelity, Fidelity Institutional Brokerage Group, nor NFS, nor anyone employed by Fidelity in any capacity has participated in the creation of ELLUMINATION and they are not responsible for the contents or distribution of ELLUMINATION.

ELLUMINATION is written to provide general information to clients, friends, and affiliates. The contents of ELLUMINATION are not to be taken as individual investment advice. No investment decisions should be made based on the opinions or information offered in ELLUMINATION.

K&A does not represent that the information in ELLUMINATION is accurate or complete and it should not be relied upon as such. Opinions expressed herein are subject to change or modification without notice.

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.