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MANAGEMENT
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Ellumination Newsletter

Fool me once, shame on you. Fool me twice, shame on me.

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So goes the old saying, unless being recited by former President Bush. Here is how he said it:

"There's an old saying in Tennessee - I know it's in Texas, probably in Tennessee - that says, fool me once, shame on - shame on you. Fool me - you can't get fooled again." -President George W. Bush, Nashville, Tenn., Sept. 17, 2002

It is hilarious when seen rather than read. I f you haven't seen it, here is the link.
http://politicalhumor.about.com/od/bushvideos/youtube/bushfoolme.htm

That is enough of that. Reality is that you can get fooled again! The stock market has been the big "fooler" for months now.

Yesterday the market rallied HUGE on prospects of another phase of the ongoing government bail-out of our shattered economy. This time it was the rumor of the creation of a "bad bank". The "bad bank" will likely be owned by the government and have a mandate to buy up all the bad debt it can from commercial banks in America.

Wall Street seemed to love the idea and goosed the markets by 3 to 4% yesterday. But haven't we been here before? In fact we have.

The pattern is clear. EVERY time there has been a substantive rumor of another phase of the bailout the stock market has rallied. Within the following week EVERY rally has failed.

We have become incredibly skeptical about chasing these rallies. So far that has led to nothing but pain. The obvious problem is that one of them will eventually be substantive and break the current trend.

But for now it is easier to extrapolate that this rally is likely to fail too. The only problem is that we won't know until it happens.

Here is another way to view what has been happening to the market. This chart portrays the S&P 500 ($SPX). Consider it a proxy for U.S. stocks as almost all U.S. stock averages look like this right now. They are all forming "flags" or "pennants" as they are sometimes called. .

Flags or pennants are short-term continuation patterns that mark a small consolidation before the previous move resumes. These patterns are usually preceded by a sharp advance or decline with heavy volume and they mark a mid-point of the move.

This flag was preceded by the sharp decline in September and October of 2008. So if it is indeed a "consolidation before the previous move resumes", that means we have more downside ahead of us once the pattern completes.

Right now we are smack in the middle of the flag, so we could see the $SPX continue to rally well above 900, as it moves to the upside of the flag. If the pattern remains intact then short term momentum should shift downward, and carry the $SPX toward the lower end of the flag. If the flag pattern completes itself, then the market bobs up and down within the confines of the upper and lower limits of the flag-until it breaks down-and gives us the continuation to new lows.

A break out of this flag to the upside would have to be interpreted as a significant sign of a change in trend. That would be a time to get very long the stock market. Until then it is anyone's guess what will happen next.

If history repeats itself, the flag will be completed with a break to the downside and the market will go lower. That would be a great time to get very short the stock market.

Right now we are neither very long nor short. We own two mortgage REITS in various models. We own one common stock in Halifax. We own three common stocks in The New World. That is it as of this writing.

We have been doing some small day trades, primarily for Hatteras, The New World and Fresnel. But so far we have not seen the signals that make us want to make any significant commitment to equities either long or short. We will act when we do.

Gold

As I started to write this morning gold (GLD) was trading down on the day. It has now reversed and is trading up. It remains on a strong buy signals using various technical indicators. Most importantly to us it is on a strong buy signal on weekly and daily charts using our proprietary 5T signal. Five of our models now have at least 5% allocations to GLD. They are Hatteras, Mendocino, Halifax, Fresnel and Key West (formerly ETF). The New World and Pt. Reyes can't own gold.

Nothing in today's world seems like a sure bet so we are moving cautiously as we add to GLD. But the current plan is to use short term weakness to continue to add, so long as our buy signals stay in place. Our target price for gold is $1200-$1400 by the end of 2009. That would translate to approximately $120-$140 for the GLD, which is trading at $87.71

Corporate Bonds

"At this point in time, I would prefer to invest in debt, an investment class that is senior to equities."
Doug Kass, General Partner of Seabreeze Partners Short LP and Seabreeze Partners Long/Short LP. This quote is extracted from his column for "The Edge" in RealMoney. Com, Monday, January 26, 2009

Doug Kass is one of the smartest guys we know. We love the idea that he is seeing the same opportunity that we are. He went on to explain this about investing in corporate bonds.

"Whether bonds or stocks, an investment vehicle is attractive only if it is priced attractively relative to risk and to the future stream of profits.

I believe that, in the fullness of time, the government's massive stimulus should take hold and equities will once again have their place in the sun, but the indigestion caused by extreme credit expansion will be with us for an indefinite period of time. Given the last decade's abuses, we have to recognize that even a favorable outcome will result in more muted growth than most are accustomed to. Navigating the period directly ahead of us will be a challenge for corporate and investment managers given the magnitude of the financial crisis and the absence of a historic road map for success or strategy.

The broad list of uncertainties, coupled with the likelihood of a protracted period of weak economic growth, suppressed interest rates, deflated and volatile corporate profits, and rising equity investor apathy and disinterest, will translate to selected fixed-income investments growing in appeal as they may provide equity-like returns with substantially less risk than would be incurred in the stock market.

Indeed, debt may be now cheaper than equities on a risk/reward basis.

It is important to note that, regardless of the strength and soundness of the obligor enterprise, on a structural basis, debt is a senior obligation to equities. Debt securities hold a senior claim on assets, with the promise of a specific and contracted return of interest and a promise for the eventual repayment of principal. By contrast, equities provide for an unlimited participation in the profits of a company after the debt payments have been made."

We continue to favor corporate bonds as our asset class of choice and the models reflect that preference.

All the best, PK

Paul

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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.

5T WEALTH MANAGEMENT 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 5T WEALTH MANAGEMENT, 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 5T WEALTH MANAGEMENT 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 5T WEALTH MANAGEMENT as a portfolio manager. Paul Krsek and Lee O'Dwyer frequently discuss investment ideas, model portfolio strategies and the investment policies of 5T WEALTH MANAGEMENT. 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 5T WEALTH MANAGEMENT.

From time to time 5T WEALTH MANAGEMENT receives requests from clients to purchase securities that are not included in the model portfolio to which they are assigned. Effective May 24, 2006, 5T WEALTH MANAGEMENT has encouraged clients to hold such securities in a separate account for the client. Because 5T WEALTH MANAGEMENT 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.

5T WEALTH MANAGEMENT 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 5T WEALTH MANAGEMENT.

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 5T WEALTH MANAGEMENT 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 5T WEALTH MANAGEMENT do not guarantee results.

Past performance should not be considered an indicator of potential future performance. If you do not consider yourself suitable, either emotionally or financially, to experience volatility and/or losses in financial markets, you should not invest.

From time to time Krsek lists the simple annual returns of the six model accounts in this newsletter. These accounts are "models" and do not represent the actual results accruing to individual accounts. Simple annual return does not represent "time weighted return" as reported individually to clients in their quarterly reports prepared using Centerpiece.

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