



Turnaround Rally or More Backing and Filling?

February 6, 2009

The talking heads on CNBC seem to be pegging today's stock market action as "the turnaround rally". We got horrible jobs data today and the market went up. They are calling that a classic "tell". All I can tell you is that every time the market rallies we wonder if this is finally the turn to the upside. Every time it falls we wonder if we are about to take the final fall into the abyss that we think is possible. At this moment in time we have no way of telling whether the S&P 500 will get to 1025 before it gets to 690 and NO ONE ELSE DOES EITHER.

Every talking head that is telling investors that the bottom is in is doing them a disservice. Every talking head that is telling investors that the worst is yet to come is also doing a disservice, because they simply don't know.

The truth is that today's rally changes nothing in the markets. We remain stuck in a trading range.



Here is an update of a chart that I have shown you twice before. It is the "flag" or "pennant" that nearly every major stock average is still caught in. The first time I showed it too you the market was trading up to the upper horizontal blue line. The second time I showed it too you the market was trading at the level of the lower horizontal blue line. Guess what? Today it is trading BETWEEN the two horizontal blue lines and BOTH lines are well within the confines of the "pennant". NOTHING will be resolved for bulls or bears until we break out of the pennant to the upside or downside.

A break to the upside demands getting LONG the stock market.

Particularly since that is the most unlikely outcome, purely from a technical point of view. Remember that I told you twice that "pennants" are "continuation" patterns. They are usually rest stops on the way to a continuation of a previous market move. So the most likely resolution of this "pennant" is a break to the downside. But we can't guarantee that, so we are acting with extreme caution relative to the stock market.

As of the close today the models will look about like this:

Hatteras will hold a very small allocation to one mortgage REIT, a 5% allocation to the GLD (gold). The rest of the funds are in cash or bonds.

Mendocino owns no stocks, no REITS. It has a 5% allocation to GLD. The rest is in cash and bonds.

Halifax owns a very small allocation of Pfizer (PFE). It has a 5% allocation to GLD. The rest is in cash and bonds.

Key West (formerly ETF) owns corporate bonds, a corporate bond ETF (exchange traded fund), and GLD.

Pt. Reyes is has a 90% allocation to corporate bonds and a 10% allocation to cash.

The New World (TNW) owns three small equity positions that cumulatively make up a 7% allocation to equities. It has a small position in a call option and the rest is in cash.

Fresnel has seen lots of activity this week. We have been executing very short term trades, including day trades in Fresnel, and it has been going very well. We consider the risk profile on Fresnel to be a bit different than our other models. This week the model saw short term trades in BAC calls, long the S&P, short the S&P, GE, the XLF, and CAT. The model has had a nice week. At the close tonight its only equity related position will be BAC calls. Otherwise, it owns GLD, corporate bonds and cash.

Cape Outlook (formerly mutual fund model) has a 20% allocation to DAVIS APPRECIATION AND INCOME FUND (convertible bonds), a 20% allocation to the HUSSMAN STRATEGIC GROWTH FUND (a market neutral fund). It is 60% in cash.

The bottom line is this: Current stock market action is indecisive at best. It is a traders market only and anyone trying to establish long term positions is likely to get burned.

The "break-out" of the pennant will tell us whether to get long or short the market.

Our corporate bond holdings continue to act very nicely. They are providing all our models with a solid foundation. So far this year Pt. Reyes is our leading model and up very nicely on the year.

We continue to like the technical picture for gold (GLD). It is on a proprietary 5T buy signal on daily, weekly and monthly charts. Frankly it doesn't get much stronger than that. We will be adding more GLD to all the models that can hold it in the coming days and weeks.

Oil and natural gas prices seem to be trying to put in a bottom. Instinctively we would love to buy both here. They seem DIRT CHEAP to us and it makes sense that their next big move is up. But we have been fooled by buying 'dirt cheap' several times in this bear market. WE want to see more technical evidence of real strength before stepping up.

Have a great weekend. All the best, PK



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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 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 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-llumination 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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