



5T Wealth
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Elimination Newsletter

"Separating fact from fiction since 1998. The antidote to Wall Street."

Fresnel in 2010

December 23, 2009

The Fresnel model will be four years old on December 31, 2009. It was our top performing model in 2006, 2007 and will be again for 2009. Cumulatively over the four years of 2006-2009 it is our top performer. It has significantly outperformed its benchmark indices since inception.

See http://www.5twealth.com/prd_port_fresnel.cfm for complete performance data.

Minimum account size is \$750,000. Fresnel features a performance fee for the manager (5T Wealth Management, LLC). It is the only one of our models that has a performance fee for management.

Prior to the introduction of Fresnel in 2006 we offered only Hatteras and Mendocino, Halifax and Bonavista. We reported on Hatteras and Mendocino in our last letter. We will be updating you on Halifax in an upcoming report. Bonavista was merged into Halifax in 2007. All four models (now three) have similar goals in that they are designed to act as "the entire investment portfolio of a prudent investor". They can all be considered "balanced" portfolios.

In 2005 one of our clients ask us to consider diversifying his portfolio through the use of a model that might appear to take more risk than Hatteras, Mendocino or Halifax, but that was also likely to achieve a higher return as a trade off for the additional risk. We "modeled the new model" and Fresnel was born as the first alternative to our traditional models.

Here is how we describe it on our website.

"Let us describe the Fresnel Model first by telling you what it is not. It is not a balanced portfolio like some other models managed by 5T Wealth Management. Therefore it is not managed as if it is the entire investment portfolio of a prudent investor. It is managed in a very focused or concentrated style and may be comprised of as few as 5 positions and rarely more than 20 positions. It has the flexibility to hold multiple asset classes, or to be highly concentrated in only one asset class. For example it has been, from time to time, invested entirely in equities. For a short period of time during 2006 it was invested only in gold and cash.

The stated goal of the Fresnel Model is to significantly outperform the S&P 500 in every three year rolling period. We are very aware that few money managers beat the S&P 500 performance year in and year out, but we believe the model should be able to out-perform over long periods of time, as measured in three year periods. The secondary goal of the Fresnel Model is absolute or positive return, year in and year out.

There are no restrictions on the asset types that the manager may use to achieve the stated goals of the Fresnel Model. The manager may employ long or short tactics and may, from time to time, employ leverage to enhance returns. Option trading strategies are also used by the manager to

potentially enhance returns and to dampen volatility. The manager does employ a strict discipline of stop loss orders to mitigate the potential for losses and to minimize volatility."

Your take away from that description should be simple. The additional perceived risk in Fresnel comes from its potential to be highly concentrated at times. Indeed that is an added element of risk. But so far we have been able to mute the risk related to concentration by the use of tight stop loss polices. In 2008, the toughest year for the markets in decades, Fresnel actually experienced slightly less volatility than Hatteras, and only slightly more than Mendocino. At this point we offer the obvious caveat that past performance is not an indicator of future success, but we have been very pleased with our ability to mitigate risk in this model despite its propensity to be more concentrated.

What does Fresnel look like right now?

Here are the current allocations for Fresnel. Fifty-two percent is currently allocated to equities. That is only 2% more than Hatteras and Mendocino. The make-up of the stocks is quite different however.

Stocks		Fresnel is much more concentrated in foreign and multinational names. It has
foreign	32%	less than half the U.S. equity allocation of Hatteras and less than a third of
multi national	13%	Mendocino.
U.S. stocks	7%	
Total Stocks	52%	This is an example of "concentration". The overwhelming majority of stocks in
Bonds	3%	this model are foreign or multinational.
Gold	2.50%	
Money Market	42.50%	Many of the stocks are "small-cap" or "mid-cap", while both Hatteras and

Mendocino both tend to hold more "large-cap". There is a heavy concentration of small-cap Chinese companies. Many of those companies are involved in the major infrastructure build out that is going on in China. Others are involved in information technology or energy, particularly oil and gas. Several of the U.S. stocks are small or mid cap as well.

Fresnel has always held more small-cap stocks than Hatteras or Mendocino. Given the mandate of this model it makes more sense to hold the stocks of smaller companies and therefore theoretically "riskier" companies in this model.

Fresnel is also a smaller model group than either Hatteras or Mendocino. There are fewer accounts and the total dollars under management in this model are significantly smaller than the amounts of money being managed in Hatteras or Mendocino. This gives us the opportunity to buy some stocks that are very thinly traded, but offer the potential for quick appreciation. One of the things we know about Fresnel is that we will eventually have to close it to new investors, or lose this edge. We would rather keep the edge as it has been instrumental in Fresnel's ability to outperform the other models.

The allocation to bonds is only 3%. We had about 29% allocated to bonds until this week. We sold all the bonds except one that matures in January 2010. Fresnel accounts that are at least 12 months old were all holding bonds that had experienced significant appreciation. We decided to "bank" the gains and convert the bond allocation to cash as we go into 2010.

The current allocation to gold (GLD) is only 2.5%. That is down from a recent high of nearly 15%. We didn't "top tick" but we made very nice money on all the trades related to the GLD (**SPDR Gold Shares**) and the DGP (**PowerShares DB Gold Double Long ETN**).

Fresnel is still nicely profitable on the remaining 2.5% allocation to GLD. As I am drafting this the GLD is trading at \$107.04. We are closely monitoring the \$105 level. If GLD continues to fall through that level we may sell the remaining allocation.

We are still extremely bullish on gold and expect it to finish 2010 at much higher levels. But we may be building back the allocation from levels that are lower than today.



Note that gold is close to being back to long term support. It will be interesting to see if that support holds and gold bounces from here.

Forty-five percent of Fresnel's assets are currently in cash. This is a treasure chest of "opportunity dollars" that will surely get allocated several times over during 2010.

Markets around the world are changing dramatically on a daily basis. Fresnel is still a small and very flexible model. It has the potential to take advantage of small or large dislocations on a moment's notice.

Here is another quote from our description of Fresnel:

"There are no restrictions on the asset types that the manager may use to achieve the stated goals of the Fresnel Model. The manager may employ long or short tactics and may, from time to time, employ leverage to enhance returns. Option trading strategies are also used by the manager to potentially enhance returns and to dampen volatility. The manager does employ a strict discipline of stop loss orders to mitigate the potential for losses and to minimize volatility."

We are looking forward to taking Fresnel into a new decade.

Contact Us

If you are a current client and have specific questions about your Fresnel account, please feel free to call either Lee (707-603-2673) or Paul (707-603-2672). Or, send us an email at lee@5twealth.com or paul@5twealth.com.

If you are a prospective client and would like more detailed information about this model please call or write. We are happy to answer your questions.

All the very best and Happy Holidays,



Paul Krsek

MANAGING MEMBER & CHIEF INVESTMENT OFFICER

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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 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-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 5T WEALTH MANAGEMENT.

If you are not satisfied with the investment results in your account it is your responsibility to inform Krsek or O'Dwyer 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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