

KAY INVESTMENTS

S E C R E G I S T E R E D I N V E S T M E N T A D V I S O R

December 7, 2009

"... We have in this Country one of the most corrupt institutions the world has ever known. I refer to the Federal Reserve Board and the Federal Reserve Banks, hereinafter called the Fed. The Fed has cheated the Government of these United States and the people of the United States out of enough money to pay the Nation's debt. The depredations and iniquities of the Fed have cost enough money to pay the National debt several times over... This evil institution has impoverished and ruined the people of these United States, has bankrupted itself, and has practically bankrupted our Government. It has done this through the defects of the law under which it operates, through the maladministration of that law by the Fed and through the corrupt practices of the moneyed vultures who control it." – Rep. Louis T. McFadden (D-PA), Chairman, Committee on Banking & Currency US House of Representatives Congressional Record/Page 12595, Year 1932

"We face two possible states of the world. One is a world in which our economic problems are largely solved, profits are on the mend, and things will soon be back to normal, except for a lot of unemployed people whose fate is, let's face it, of no concern to Wall Street. The other is a world that has enjoyed a brief intermission prior to a terrific second act in which an even larger share of credit losses will be taken, and in which the range of policy choices will be more restricted because we've already issued more government liabilities than a banana republic, and will [further steeply devalue] our currency if we do it again". – John Hussman, PhD, November 2009, Economist and Fund Manager.

"...Thus far, [all factors] continue to support the likelihood of further advances in the primary uptrend, albeit possibly after a [likely] near term corrective move." – Lowry's Institutional 12/4/09.

We have a bull market going on at present. There are no arguments about that. Further, plenty of observers, many with great reputations, feel that our economic problems are largely solved. Either way, we are playing the hand we hold, which is bull market. That's why I've returned money to stock funds this year. If I could turn back the clock, I would have invested earlier and more aggressively. The good news, however, is we lost much less last year and we are still ahead. I remain vigilant.

The decline of the dollar is troubling, of course, because a crashing currency is just not an event that one associates with a vibrant economy. The dollar has lost over 20% of its value since March (depending on exactly which currency it is compared to). Interestingly, the stock market has risen with almost perfect correlation to the drop of the dollar. The game plan in the investment world seems to be "borrow the dollar at nearly zero interest, buy commodities, gold, stocks, anything tangible, repay later with cheaper dollars." If that sounds familiar, it is because it follows the same formula as past bubbles in technology, real estate, natural resources and other commodities. The eventual rush for the exits might happen when our Fed raises interest rates, or after another triggering, unforeseen event.

I'm asked often why the dollar is burning and if that is inflationary. There are two main reasons the dollar is falling: one is that our Fed is "printing" money at a high rate. Money creation is generally

inflationary for the obvious reason that printing presses cannot create wealth. The other reason the dollar is falling is that short term interest rates are nearly zero. It becomes a speculative game to borrow newly printed dollars at nearly zero interest, sell them into a currency offering a higher interest and then buy back later. We are seeing some instances of inflation already in rising prices of stocks, gold, materials etc. We are not seeing generalized inflation yet, however, because people are not working, demand for goods is low and money is not moving around from person to person very quickly. It is rare to see high general inflation when unemployment is high.

My choice in investments focuses on foreign funds, materials, technology, convertible securities and consumer staples, all emphasizing global industries, non-dollar denominated stocks, low interest rates or goods that people cannot do without. I'm happy with our investment choices but I want to increase foreign exposure. I'm looking for the opening right now.

Since March, I've been reviewing my investment systems to make them more responsive. I would like to be even more capable of taking cover and more capable of re-entering. I will communicate my progress as I go forward with that review. It is my intention to communicate more regularly via this newsletter. I have looked into starting a blog for the Kay Investments Inc. website but admittedly I don't feel especially confident that I understand the technology – or that demand warrants this. So for now, my goal is to write this newsletter on a monthly basis. Please let me know if that is your preference also. I do not track the number of hits to the newsletter.

Please contact me if you would like to review your investment model or strategy.

This newsletter contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

Use of the S&P 500 (and other Indexes) is for comparative purposes only. The volatility of the Kay Investments Inc. portfolios may be materially different from the volatility of the S&P 500 (or other) Index due to varying degrees of diversification and/or other factors.

Kay Investments Inc. is an SEC registered investment adviser with its principal place of business in the State of New York. Kay Investments Inc. and its representatives are in compliance with the current registration and notice filing requirements imposed upon registered investment advisers by those states in which it maintains clients. Kay Investments Inc. may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements. This newsletter is limited to the dissemination of general information pertaining to its investment advisory services. Any subsequent, direct communication by Kay Investments Inc. with a prospective client shall be conducted by a representative who is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides.

For information pertaining to the registration status of Kay Investments Inc, please contact us or refer to the Investment Adviser Public Disclosure web site www.adviserinfo.sec.gov. For additional information about Kay Investments Inc, including fees and services, please contact us for a copy of our disclosure statement as set forth on Form ADV. This is also available on the home page of the Kay Investments Inc. website, www.kayinvestments.com. Please read the disclosure statement carefully before you invest or send money.