

KAY INVESTMENTS

SEC REGISTERED INVESTMENT ADVISOR

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One of the lessons of history is that nothing is often a good thing to do and always a clever thing to say. Will Durant, American philosopher, historian and writer (1885-1981).

The Markets

I have not made many portfolio changes during the past couple of months because the markets have tarred all sectors – even the strongest – with the same brush. For example, technology companies have been battered, even as their prospects shine and they sell to vibrant economies abroad. International funds have been hit hard, even as they represent the strongest companies in the strongest economies, perhaps because they have more gains (from 2007) to give back. The question on everyone's mind, of course, is when will the markets bottom and resume their upward track? Have they already?

I believe that it will be months before the bottom is safe and one can declare that a new bull market cycle has begun. Negative consumer sentiment, problems in the banking and credit system and the upside-down real estate market will all need time to stabilize. Fortunately, the stock market processes information and looks ahead, bottoming before the economy. Surprises create the biggest moves in either direction. Much of the bad news is already priced in.

Short term market scenarios are nearly impossible to predict. For example, if hypothetically June 14 were to be the bottom day for stocks, that fact would not be known or confirmed until maybe August or September (if not later) and prices were already well higher. Unfortunately, on June 14 things would be looking so dismal that some clients would call me to sell.

I feel that the redeeming quality of our mutual fund strategy is its capability, through intelligent allocation, to out-earn the averages once the market resumes its upward track. While nothing is guaranteed, it is the best defense I know for cushioning and overcoming the inevitable declines, large and small.

Stock Strategy

For those who qualify and would like to take part, I am adding a stock strategy to my investment advisory. Please contact me if you would like to discuss this. You may also read about it elsewhere on the website. I feel that the strategy has the capability of adding further diversification, safety and opportunity to ones investment program because of the particular approach I will be using. Unfortunately, I will not be managing the strategy through Fidelity due to commission and operational concerns. I will be using Folio FN.

Returns

Your returns for Q1 2008 have been emailed to you. I am pleased with our returns during this difficult period. Please contact me with any questions or to discuss your risk profile. The Q1 market returns (courtesy Telechart 2000) were:

S&P 500 (large cap):	-9.9%
Russell 2000 (small companies):	-10.2%
Nasdaq (technology):	-14.1%
S&P 400 (mid size companies):	-9.1%
ASE International Market Index:	-11.4%

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