

KAY INVESTMENTS

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Remember that there is nothing stable in human affairs; therefore avoid undue elation in prosperity, or undue depression in adversity. ~ Socrates

Ideas for 2009

I haven't been at all surprised that the market has lost much of its recent gains. The market statistics that I follow simply have not shown any evidence that a new bull market was developing. Bull markets start with broad based, enthusiastic, high volume buying – which was not present. I do not believe that it is time to put all of our sidelined cash back in stocks just because the market has fallen so low or because we are closer to the bottom than the top. One thing (among many) that I learned last year is to watch market statistics. My focal point for 2009 for client accounts will be to reenter the market in stages, based on solid evidence of enthusiastic buying, however much patience that may require.

The stock market will turn around when the end of the recession is in sight – always a matter of months ahead of it. The candidates for growth when the turnaround and new bull market begin are likely to include industrial equipment (infra-structure), medical equipment (a true growth industry) and healthcare (especially pharmaceuticals), biotechnology (best stock sector in 2008), energy services (exploration, development and transportation) and defensive technology (information services). Foreign regions I am watching include Latin America (especially Brazil) and Asia (especially China).

Investment and Risk Orientation

I believe it is very possible that we will experience a low return environment for a while, possibly another year or more. We need to be prepared in case this recession becomes longer and deeper than some think. The long cycle of ever increasing private indebtedness is unwinding, which is very deflationary. Unfortunately, it is now morphing into a mushroom cloud of public indebtedness. Further, there are uncertainties surrounding the effectiveness of the economic stimulus that may be implemented. I consider a natural progression for moving cash back into the market to be: start with quality bonds, then blend higher yield and convertible bonds and finally move to stock. As you may have noticed, many months ago I configured aggressive model accounts to look like moderate; moderate to look like conservative; and conservative to look ultra conservative. Therefore, I will soon be moving much of the excess cash to bonds.

2008 Returns

While our accounts finished down of course in 2008, we finished down much less than the averages, which lost close to 40%. I began to cash in various stock positions in August and September, before the major drop in October and November. I have emailed your returns to you. If you would like to review your investment orientation, please contact me by phone or email.

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