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The Ongoing Market Decline

The stock markets have definitely taken an ugly turn downward since mid July and I thought you would appreciate receiving a further update from me.

This period has definitely been painful. The key points, in my opinion, are the following:

How likely is it that this downturn will spiral into a major decline on the order of the drop five years ago? This question is high on everyone's mind. In my opinion, based on the best and most compelling sources that I consult, it is not likely that this will be the case. The major bear market scenario (as this is called) is not likely to occur without a recession – which is probably not a threat at this time. Additionally, the global economy is very strong. Granted, the recent decline started in the U.S. and has inevitably caused global markets to drop with it. However, that very same global economic strength will likely cause our stock funds to rebound. My prediction, for whatever it's worth, is that we will rebound nicely into positive territory by year end.

It is well known that it is difficult to "time" investments so as to exit stock funds before they drop and then re-enter as they are ready to rebound. Based on my view that we are not in the midst of a major downward spiral of the order of five years ago, our course of action needs to be patience, in spite of however painful it feels.

By way of perspective, a drop of 10% during a bull market is actually a very common, even healthy event. I would remind everyone that the markets dropped approximately that amount as recently as May of 2006. Of course, being natural – even healthy – doesn't mean it's not painful or worrisome.

One point I want you to be aware of is that when the U.S. markets tumble and correct, foreign stock funds generally tumble more. This is a reflection of the greater volatility that is inherent in foreign funds. So do our specialty sector funds, such as technology and energy services. These are the same funds that have outperformed and overachieved all year and remain ahead for the entire year to date. I also expect these very same funds to provide a strong finish to the year.

In light of the above I feel that my efforts need to be focused on keeping your stock funds directed to the investment themes, regions and sectors that promise the highest level of growth once this correction ends and we resume trending upward. I feel that your accounts are currently well positioned for that.

What if I'm wrong and this downturn gets deeper and more protracted? What if this does turn into a bear market? Since the markets are short term unpredictable, I think we always need to consider other scenarios, however unlikely they may seem. The answer, once again, is a matter of the right perspective. A well managed stock portfolio actively pursuing the strongest

sectors, regions and markets will recover losses predictably. It's known, for example, that the first year after a serious bear market is commonly the strongest year and can sometimes recover the major part of the losses. In 2003 the S&P 500 earned 26%, for example, recovering all of the losses of 2002.

Proper perspective, therefore, means realizing that eventually a well managed portfolio always reaches a new high water mark no matter what happens in the way of setbacks along the way. Remember that we are not invested in speculative ventures that roll over and die. We are invested in entire industries and global economies in the U.S. and all over the world. Inevitably and eventually our investments reflect growth. If only the curve went straight up without painful corrections. Because the markets are driven by emotion (such as greed and fear) over the short term, it's easy to become distracted from the fact that over time growth determines prices, not emotion.

If you would like to discuss the situation further or if you would like to re-examine your overall long term risk orientation, please contact me. I will be happy to discuss this with you.