KAYINVESTMENTS

SEC REGISTERED INVESTMENT ADVISOR

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*Lord, the money we do spend on Government and it's not one bit better than the government we got for one third the money twenty years ago. ~ Will Rogers.*

**Mid-term Report Card and the Ugly Month of July**

As of June 30, things didn't look all that terrible as we were not down all that much for the year (approximately 7% for the most aggressive accounts versus approximately 13% for the market averages). We actually made money for the months April, May and June combined, all owing to the fact that there have been places to hide. Our sector investments helped our cause greatly, specifically energy services, natural gas and medical equipment, along with the materials-oriented Fidelity Independence fund.

A number of things have changed in the last few weeks. For one thing, energy prices finally hit the choke point, meaning levels that threaten the health of the global economy – and then finally retreated. The other thing is that the market decline became broad based, exhibiting weakness in practically every sector and region. There has been practically nowhere to hide. We made the transition to full-fledged bear market.

**Perspective, Outlook and Strategy**

From its highest peak early last October through its recent low point, the S&P 500 dropped over 20%. It hovered not far from its value on 12/31/04, meaning the averages gave back over 3 years of gains. Fortunately (known as good news/bad news), our client accounts have retraced toward values from 2007.

Bear markets happen around three times every 20 years. Our last one bottomed in the fall of 2002. I note that they often reach bottom in the fall months. Historically, it would be quite common to witness a drop of 30% from peak to trough. Typically, the bottom represents a final "capitulation" meaning that selling pressure becomes utterly exhausted as investor sentiment and emotions reach a riot point. Are we near that point? Some of my sources feel that we are, while others don't. My opinion is that the current rally will eventually hold and we will resume a downward track for somewhat longer.

I have taken converted a portion of the accounts cash, but it is also risky business for an advisor to decide that an aggressive investor with a long term time horizon should be out of the markets. If you feel that your "sleep factor" requires a more conservative approach for a while, then I need to hear from you.

**Future Opportunities**

For the last few years, the larger gains have come from energy, natural resources and foreign markets. I believe there will be a shift coming out of this decline and I expect financial and banking stocks to be a big part of it. Those stocks, which are currently a gagging, retching mess, will provide the opportunity for outsized gains eventually. I feel that today is too early but one can be assured that the Federal Reserve will do whatever is necessary to protect the its franchises, the country's banks.

**What Am I Doing?**

Aside from contemplating doomsday scenarios, I am occupied with keeping the portfolios invested in the sectors I believe will be strongest in this period. In particular, despite the likelihood of a nearer term pull back in energy prices, I'm staying somewhat invested in energy funds for the long term. Aside from energy, I'm focused in information technology, biotech, medical equipment and healthcare. I have greatly reduced international holdings. I intend to stay invested within the risk profile you provide.

**What Should You Do?**

You should be at peace with your investment orientation. Given the short term uncertainties, it is not a given that I would be able to sell your positions today and reinvest at a lower price later after the market bottoms. Therefore, I am more comfortable with you changing your risk profile only if the change is intended to be long term, but I will respect your wishes. Should we discuss this? I am available by phone and email. Remember that my opinions regarding the future are just opinions. My preference is not to give opinions on market timing – it is to identify sectors, funds and regions that are likely to be strongest at any given time.

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