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We've had a large scale sell-off in stocks this week and I thought you would appreciate hearing my thoughts on it. I will try to put the turbulence in proper perspective.

Much of the sell-off traces to the growing problems in the real estate world: falling values, slowing sales and defaults of bad mortgages (the "sub prime credit market"). Think of this as a contagion: even if most stocks are not linked directly to the problem, there is an emotional factor. Many investors extrapolate the problems, becoming more averse to risk. Another factor is that certain areas of the U.S. economy (consumer oriented areas) are straining, partly due to higher energy costs. As noted in previous newsletters, the U.S. is NOT the world's strongest economy or stock market at this time. Finally, there is the inevitable correction that occurs when stocks have risen a little too far and a little too fast. In fact, none of these goings-on is surprising and may actually represent a healthy shakeout.

The real question, of course, is how far our stock funds might drop and for how long. Will this week actually mark the beginning of a long precipitous drop? How should we be positioned with our stock funds?

I don't believe that this correction will mark the beginning of a major bear market as yet, although a drop of 10 - 15% will not be surprising or unusual. So things will very possibly look gloomier yet as the next few weeks unfold. However, the world economy continues to grow at a healthy rate and there are sectors, for example energy services, technology, electrical and industrial equipment, where the growth prospects are currently outstanding. We are invested there.

The above is one reason why I don't advocate giving in to the temptation to become bearish or worried as prices fall. Another reason is that once prices begin to rise again it will be practically impossible to know and repurchase. The bottom line is that when you choose an investment orientation - moderate, aggressive, conservative - you are buying into a long term course of action.

Selectivity is one of our tools for dealing with the uncertainties of stock investments. Nothing we own is invulnerable (most stock investments tend to correlate and all need to correct periodically) but we can nevertheless focus on the regions, sectors and categories that we think exhibit the greatest potential for growth. Today those areas are smaller foreign stock markets (also called "emerging markets"), other larger foreign stock funds and healthier industry sectors. That's exactly where my attention is centered today.

I am watching the Fidelity Japan fund and have been moving smaller amounts of money into it, starting this week. There is evidence that the situation in Japanese stocks is about to turn around gradually. I will keep you informed.