

# KAY INVESTMENTS

SEC REGISTERED INVESTMENT ADVISOR

October 2, 2007

## **A Truly Outstanding Year for KI Clients Through Three Quarters**

I have many things to say about the markets and what I think the future may hold, but first I want to point out that KI clients have had an amazing year through 9 months. We've outperformed the averages by more than ever before, thanks to our strategy of selectively choosing the right industry sectors, geographic regions and investment styles. I truly believe that, given the outstanding quality of information I draw on, we will continue to outperform and overachieve.

## **All Is Not Perfectly Well**

We had a very volatile and precipitous drop in the stock market from mid July to mid August, as everyone knows. At the time I said in the newsletters that I did not believe that this would become an extended and serious bear market decline. All things are playing out pretty well as I expected – however the U.S. economy remains weak and vulnerable. Weak earnings reports over the next six months could cause the market to stay volatile and keep gains in the major averages muted. Also, I do not believe that we have seen the last of the fallout from the sub-prime mess, which could cause further shocks to the system. In any case, I do not believe that recession is in the foreseeable future, based on numerous factors.

## **Our Strategy Today**

*Dollar Lifts Exporters, Blunting Housing Bust – Wall St Journal 10/1/2007*

*Tech Sector Business Activity Is Humming...we see no imminent threat to tech profits and would buy into any emotional selling in the coming weeks...output is booming in the tech-heavy emerging Asian region – BCA Analyst 10/1/07*

*Energy Service stocks still remain attractively valued on a relative forward P/E basis...The relentless climb in global consumption relative to production seems likely to persist. Stay overweight – BCA Analyst 9/26/07*

Today's smart money theme remains "Go Global". As stated in previous newsletters, the rest of the world is still strong and we have been positioning ourselves all along to take advantage of that – much to our benefit and profit. Approximately one third of our holdings are pure foreign funds pinpointed at strong regions, especially the so-called emerging market countries. Another half of our holdings are focused in specific industry sectors that feed the strong global economies and capitalize on the weakening U.S. dollar: technology, energy services, industrial equipment, consumer staples, medical equipment and gold. Conversely, we are staying as far as possible away from anything relying on the U.S. consumer – such as finance, banking, real estate (REITS), restaurants and retail. Other weak areas are utilities (strong through 2006) and small cap (strong for this entire bull market until now). Our bottom line in an "All Is Not Perfectly Well" world is selectivity, selectivity and then more selectivity.

## **What the Future May Hold**

It's being said that we are in the third and last stage of the equity bull market that started in late 2002. Mature bull markets feature high volatility (large up and down swings), high investor emotion (greed and fear) and potential excesses (remember internet and tech

stocks in 1999?). There is much that is impossible to know but it's my opinion that the table is set for a profitable continuation upward – provided we're well positioned as discussed above. I believe that we're very well positioned as we head toward the end of 2007.

**Your Account**

It's important to review and discuss any concerns you may have regarding your account. If you would like to talk about your investment orientation, e.g. go more aggressive, less aggressive or other matters, please call or email.