

# KAY INVESTMENTS

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July 4, 2007

## Overview

The first 6 months of 2007 have been good to investors as the S&P 500 earned 6%. KI clients who have been in the aggressive model all year have earned well over that. Even the conservative model has earned roughly equal to the S&P. I've worked hard to focus money on the areas that are on the move. I've improved the quality of my information sources; introduced new software to manage portfolios; and been ever more active in positioning your accounts. In summary, I feel very good about where we stand today and our prospects going forward.

Some of you feel the newsletter has been a little too complicated while others like it that way. I'm going to give the big picture, topic by topic and if you want more detail – you should be able to find it. You can also get more detail by emailing me. Please give me feedback on the newsletter (or ask me questions) by simply clicking on the contact menu.

## Big Picture: Selective Strength, Sectors and Regions

First, there is more strength outside the U.S. today than within. Global economies are more vibrant, especially within “emerging markets” (meaning Asia outside Japan, Latin America, India, etc.). Europe is also showing strength.

*The upshot is that the [differences] in relative stock performance will grow and investors should keep portfolios heavily [invested] in global industries. [courtesy BCA Investment Research]*

Second, we have moved money out of U.S. small cap and even mid cap (meaning smaller and mid size companies). Smaller companies thrived and overachieved for a number of years – but now the table is set for large, even mega sized companies, such as multinationals. (Larger companies export more and cope fine with the weakening dollar. Smaller companies are hurt more by rising interest rates, rising energy prices, cash strapped consumers and the slowing US economy). We are invested in smaller companies outside the U.S.

*Small cap earnings are heavily reliant on the domestic economy, while large caps are able to participate in the buoyant global economy.*

Third, we are focusing money on specific industry sectors that should offer the greatest promise. The three that may lead the way are energy, technology and industrial. These also dovetail nicely with the global economy.

*Energy continues to be our favorite mania candidate because an ... increase in emerging markets' demand is being met by a limited supply response. This is a very positive backdrop for energy stocks, where valuations remain attractive and relative earnings are strengthening.*

*On the positive side, both the technology and industrial sectors (as well as energy....) have often demonstrated a positive correlation with bond yields, going back more than thirty years... In other words, there is significant good news in front of the tech sector.*

*[above quotes courtesy BCA Investment Research]*

### **Big Picture: the Market Cycle**

When I'm asked the question about when the next bear market will arrive, I usually try to duck the question. My job is to pick the best targeted investments I can over the entire cycle (see Strategy menu). However, my belief today holds with those who think the current bull market is entering a "mature" phase, featuring selective opportunities while certain sectors underachieve (such as consumer discretionary, real estate, small companies, financial services, interest sensitive). This could easily continue for a couple of years. One thing I'm very sure of though, is that I will be studying the landscape at all times. While you're sleeping, the lights are on here and I'm studying every little thing I can. I'm also continuously reevaluating fund A versus fund B as investment vehicle.

### **Big Picture: Bonds, Interest Rates and Fixed Investments**

Rates have been increasing all around the world and pulling U.S. rates up with them. Although rising rates are never great news for stocks (stocks don't like competing with bonds and economies prefer lower interest rates), rates are generally still at or below historical norms. Also, many believe rates are rising abroad because of economic growth (rather than inflation or destructive forces). The bottom line is that the rising rates have hurt bonds so far this year (bonds drop when rates rise) but it may be that most of the damage has been done – rates may not rise a lot more for a while. YTD, bond investments have served up some very soggy returns. Your accounts have earned practically everything from the aggressive part of your portfolio.

### **Your Investment Posture**

As always, I'm available to discuss your investment posture, in case you are considering a change in model (conservative, moderate, aggressive) or have questions. You may contact me by email right from the website (contact menu) or by any other means.