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A Selective Affair, Increasingly Volatile and Nerve Wracking

With the housing implosion and ongoing riot in the credit markets, it's understandable that investors' nerves are fraying around the edges. I confess that my own have frayed a bit. In previous newsletters I noted that we should expect market volatility to increase and keep increasing for the foreseeable future. Additionally, the stock market has become an increasingly selective affair. Various international markets, technology, large industrials, multi-national growth, consumer staples and energy continue to be strong while financials, consumer discretionary and real estate are weak and getting weaker. (Consumer staples companies create "must have" products while consumer discretionary companies create "like, but don't really need" products).

Emerging Markets and Other International Stocks

We have maintained a large investment position in so called "emerging markets" stocks, referring to countries such as China, India, Southeast Asia, Korea, South America etc. We've been well rewarded as these markets are growing for many reasons at the same time. First, their economies and company earnings are growing rapidly. Second, their stocks are becoming more accepted by large investors and therefore are commanding higher prices per dollar of earnings. Third, there is simply a supply shortage of stocks. For example, China and India account for 22% of the global GDP (gross domestic product) yet the total value of their investable stock open to foreign investors is only 2.3% of all global stock. For all the above reasons, we have witnessed a growing stampede this year, much to our benefit and investing pleasure. Our aggressive model portfolio is approximately 40% invested in pure international portfolios of different types. Additionally, our sector holdings (below) are largely plays on the "go global" theme.

Energy and Technology and Other Sectors

There continues to be a strong difference of opinion regarding energy and technology as investment opportunities. Many people just don't believe that increased energy prices can sustain. I hold with the camp that believes that they will sustain and that there may be a snowball effect as the message becomes clearer. We've remained invested in energy services most of the year and I don't foresee that changing. However, I do anticipate that we should prepare for temporary pullbacks in price along the way. Technology stocks remain on our menu because earnings are poised to move higher (according to BCA Research), insider buying is on an upward march (again, thanks to BCA Research), stock prices are relatively low (by historical measures for the sector), tech companies are export oriented (they love the weaker dollar and strong foreign economies) and finally (for good measure): tech stocks are approximately 1,000,000 miles away from subprime mortgages. Other sector funds where we've placed money: Fidelity Select Consumer Staples, Rydex Weakening Dollar and Fidelity Select Gold. I've limited the gold because it is so volatile but with the Fed lowering rates and the dollar in a free fall, gold is expected to be a big beneficiary. It has been our

strongest fund since August. As always, consult prospectus regarding the above funds and past performance does not guarantee future results.

Returns Year to Date

It's important to remember that above-the-norm price movements in stocks occur when there is a difference of opinion about them. Any information that is widely known won't generally be worth more than average returns. So a difference of opinion is a welcome thing, as long as we feel confident in our side of it. Our strategy is to find the outperforming sectors and regions and go there. So far this year, our models (starting with the aggressive of course) have substantially outperformed the averages, much to everyone's satisfaction (including mine). I've made a couple of small missteps here and there (Japan?) but there has been more than enough slack to cover that. I will be computing your numbers at year end.

When Does the Train Run Out of Track?

It's not a question of if, but when this market runs out of track. I just don't feel it's time to jump off the train yet. The good news about a maturing, late stage bull market is that it can eventually produce very large gains. The bad news is that it is typically very volatile as investor emotions ebb and flow. The further bad news, of course, is that no one tells us when it's over. The adage about bull markets climbing a wall of worry is very true now. Although I will be watching closely, studying and listening, there is no way that I will know when things peak. Our backup plan, therefore, is the same as our regular plan: make as much money as we can before the market peaks and then make as much as we can after it has bottomed again. I can't possibly predict the in-between except that I will be slugging it out trying to find the best investments. All things considered, I like our positions today and I always like our long term prospects.

Please Contact Me If...

Please contact me if you would like to discuss your risk profile, your investment model or if you would like to open an account!