

## E-Illuminations

November 28, 2005

The last time we wrote to you was at the end of October and we were ready to declare October to be permanently banned from the economic calendar. We have no idea why the markets so often go haywire in October. We only know that they do. We might have had a more muted reaction to this October's terror, except that we have found 2005 to be an incredibly difficult year in which to manage money. We might consider it to be the toughest so far.

As these paragraphs are being written, K&A managed accounts are comfortably in the black for the year. That is particularly true for those accounts that we manage on the Prudent Person Growth and Income (PPGI) model. It is also true for the Prudent Person Hedged Growth and Income (PPHGI) model portfolios as well. For a complete explanation of all of our model portfolio styles you can go to <http://www.kaassets.com/choices.htm>

But this has been a grinding year. The major stock markets have spent most of the year in negative territory. Even the rallies have tended to be of low quality in that they have often been "narrow". That simply means that while the major averages may be going up, many stocks are not participating in the rise.

The dollar has been going up; when we thought it would be going down. That has been the biggest investment surprise of the year.

The Fed has been raising interest rates in a non-stop fashion. Everyone knows the old market adage "don't fight the fed". Trying to make money in stocks or bonds while the Fed is on a tear is like trying to sail directly into a storm. It is just that simple, and usually just as pointless.

If there is any good news, it may be that the Fed is nearing an end to its current rampage of higher rates. That is how the markets are reading things anyway. The beginning of the end of any storm always offers hope to those who survived the storm.

That is what is happening to the stock markets right now. They seem to be sensing the end of the storm. Since the October lows, the major stock averages have moved almost straight up. Check out the charts on the following page from Marketwatch.com



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They look amazingly similar, don't they? Frankly, we are thankful for the rally and "we'll take it." If we could have our "druthers", the markets would trend sideways now for about a week or two, and work on consolidating these gains. We'd prefer not to see the markets continue their rise without at least a pause for digestion. We are operating on a simple theory here, i.e., what is too easily gained is just as easily lost.

Interestingly, while stocks were languishing in October, gold was mounting the next leg up in its longer term rally. It actually moved up sharply in September, after many months of consolidation. It rested again in October and has rallied sharply in November.

STREETTRACKS GOLD TRUST  
as of 25-Nov-2005



It is probably the fool who thinks he knows where the markets are going. But we have always ventured the “foolish” opinion. We believe gold is taking another short pause before mounting an attack on \$500, then \$529, \$575, and possibly our upside target of \$720.

We will be explaining why we are so bullish on Gold in our 2006 forecast report to investors.

We wish we were as confident about the stock markets. Frankly we have not established longer term targets at this writing. But for the short term our targets are pretty simple. We expect to see 11,000 on the DJIA; 2300 on the NASDAQ Composite and at least 1275 on the S&P 500. If that happens, we’ll reevaluate from there. In the meantime, “don’t fight the tape” and enjoy the rally.

We’ll also have plenty to say about the stock markets in 2006 forecast report as well.

Best regards,

Paul Krsek  
For K&A Asset Management, LLC

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Sincerely,

Paul Krsek  
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