



ELLUMINATION

September 18, 2007

Celebrate! Celebrate!

We rarely celebrate around here the way we did today. From 11:15 a.m. on we stared at our computer screens in awe of all the green we were seeing. We “high-fived” each other over a perfect trade that we made the instant the Fed decision was announced.

Lee and I actually went to lunch after the market closed, drank some wine and celebrated with one of our clients. These are things we never do. We are too conservative to celebrate and too focused on tomorrow to take today for granted. But when you call it exactly right you feel good.

When you work as hard as we have worked to achieve great results for our clients in 2007 you need a couple hours off; and you need to celebrate success. There is nothing better for market junkies like us than getting the whole picture exactly right and making you (and us) LOTS of money. Call us crazy, but that is what we live for.

The Fed did exactly what we expected them to do and played their roles as stars of the “Plunge Protection Team” to perfection.

They cut rates—BIG TIME. The markets reacted--BIG TIME. At the end of the day we had one of the biggest gains in all of our model portfolios that we can remember. All of our models finished the day up HUGE and well ahead of the S&P 500 for the year. From our perspective it doesn't get much better than that.

What made it especially sweet is that we really worked hard to position the models to be in the right positions to take advantage of the Fed's action.

We wrote our last newsletter to you on August 30, 2007 and we called it ***Don't Fight the Fed***. In that letter we focused a lot on why we thought the Fed's actions, starting about August 16th, were beginning to fulfill our expectations and predictions relative to their behavior. We also focused on why we thought the Fed was part of what we dubbed the “Plunge Protection Team”(PPT) and we explained emphatically and thoroughly that we thought that the PPT had the will and where-with-all to keep us out of recession and the stock markets rising—despite all the current problems in domestic real estate.

One of the key points in that letter was: *“The U.S. Federal Reserve Bank will be cutting the FED Funds rate. We can't predict by how much, but we are confident that the odds exceed 99 to 1 that the first cut will come in September. It may larger than 25 basis points to give a clear signal to the markets and the world that the FED is serious about keeping money available and flowing.”*

Later in the same letter I reiterated that: *“I have no doubt that they will be cutting the FED Funds rate at that meeting. In fact I have no doubt that the FED will do everything necessary to inflate our way out of this crisis and to avoid a long term systemic problem within our banking system; and therefore our financial markets.”*

Well, that is exactly what happened, and the markets got the “clear signal” we thought they would get. That letter also said that: “Over the next couple of months the U.S. stock market should approach 1500 as measured by the S&P 500 and 13700 as measured on the DJIA before running into any real headwinds again. I am very confident the markets will end 2007 higher than they are today.”

The S&P500 closed tonight at 1519.78 and the DJIA closed at 13739.40, so we are already there.

The Fed cut rates and the stock market went up, but there have been other consequences as well. The dollar’s decline accelerated today. Gold’s advance accelerated too.

In that August 30, 2007 letter we said: “Therefore the dollar will be falling against the Yen and the Euro. The U.S. Dollar Index will be falling below the long term line in the sand at 80 that we have pointed out in past Elluminations. We now expect it to get to 75.”

The U.S. Dollar index actually broke below 80 during first week of September and continues to weaken. The chart below is a Point & Figure (P&F) Chart showing the decline of the dollar. I have shown you this type of chart before and told you not to get confused by the chart, but just to concentrate on what it is trying to show you, which in this case is the declining trend line and the next target on the downside.

I’d offer the same comment this time; because if you are not familiar with them, then P&F Charts can appear to be confusing. So don’t let the chart confuse you.

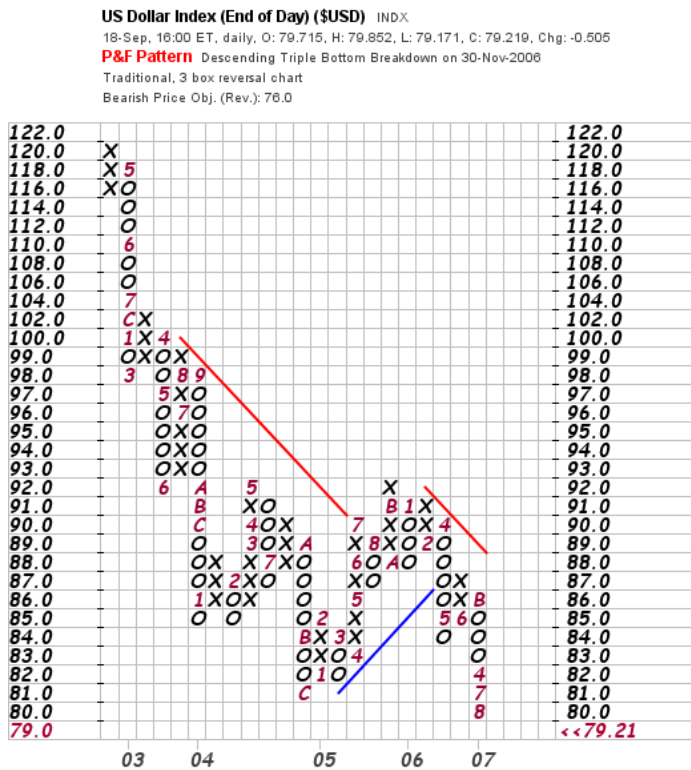
The bottom line is that the Dollar is declining in value. You can see that. Right?

The chart now indicates a target of 76. You can see that posted in the text above the chart called “Bearish Price Objective”.

Well, I am here to tell you that 76 is only 1 point away from the 75 target that I set back on August 30. We aren’t there yet, but I consider this chart to be no coincidence. The U.S. Dollar will be declining in value against other major currencies. Period. End of story.

Finally we had several things to say about commodities in that August 30 newsletter. Here is one of those thoughts:

“Commodity prices were falling and should have fallen more (before the big Fed intervention on August 16). That trend has been reversed IMMEDIATELY (now that the Fed has intervened); and prices are already on the rise again. We told you several weeks ago that copper was headed all the way



back to \$1.30 over the next few years. ***Cancel that alert.*** Copper prices; gold prices; aluminum prices, steel prices; and oil and gas prices are now likely to stay higher for longer than would otherwise have been the case. For example we were setting up for oil prices to retreat to the low \$60's. We now believe the floor is in at \$70 for the foreseeable future. The commodity bull market has been extended thanks to overwhelming infusion of new cash into the financial system. We don't think that infusion is anywhere near complete."

As of tonight oil prices are over \$82. Gold is over \$730. Natural gas is back over \$6.55. Copper is at \$3.49. The commodity bull market is clearly intact and not going away any time soon.

Our models did great today and they are all having a very good year. We called this one exactly right and therefore today offered up a HUGE pay day for the models. We simply couldn't be happier.

There is often no perfection in what we do. There are often cross current galore to deal with. We protect your money as much as we try to make you money. We worry way more than you do—and you can take that to the bank.

This time we got it ALL RIGHT! No runs, no drips, no errors.

Tomorrow it all starts all over again, and we will be here fighting to hang on to your gains and trying to build on them. We will be back on the "wall of worry". We have new clients who have just put new money with us and frankly didn't benefit by all we accomplished in the past month or so. One of our jobs, starting tomorrow, is to get them into the markets--successfully.

Tonight we expect Asian markets to be up BIG TIME and we expect Europe to open up tomorrow. Eventually we will see a spat of "profit taking"; but that is for another day.

Tonight we are certainly lighter of heart because the Fed and the "Plunge Protection Team" just keep doing exactly what we expect of them.

We said in the August 30 newsletter that: *"Before the FED started to act it was still difficult to know exactly how they would react in a crisis. That is no longer the case. They are behaving just as I thought they would and they will continue to do so."* Well, today they did it again.

My final thought for the evening is to reiterate what I said back on August 30, 2007: *I am very confident the markets will end 2007 higher than they are today."*

I am tired. I am glad for all of us. I am proud of our team tonight. I love it when a plan comes together. I am going to watch the Asian markets for a few minutes and go to bed.

Good night George. Good night Gracie.

All the best, PK

For K&A Asset Management, LLC

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K&A manages accounts with various histories and investment objectives. Various accounts may be managed differently from time to time.

Krsek makes frequent reference to the model portfolios called Hatteras, Mendocino, Halifax, Bonavista, Fresnel and The New World. During 2005 Paul Krsek was appointed Chief Investment Officer of K&A, and as such is responsible to make all trading and management decisions for all client accounts which are being managed according to a specific portfolio model. A description of each of our models can be found on our website at <http://www.kaassets.com/choices.htm>.

Not all accounts managed by K&A are "modeled" accounts. We strongly urge our clients to understand which model, if any, are being used to manage their accounts.

As of July 3, 2007 Lee O'Dwyer joined K&A as a portfolio manager. Paul Krsek and Lee O'Dwyer frequently discuss investment ideas, model portfolio strategies and the investment policies of K&A. But when it comes to the implementation of those policies Krsek is primarily responsible to manage the accounts that fit into each model portfolio description. He generally makes all final investment and trading decisions relative to those accounts that are considered to be "modeled." However, in Krsek's absence O'Dwyer does have the authority to trade all client accounts. He has been actively trading accounts in the various models since joining K&A.

From time to time K&A receives requests from clients to purchase securities that are not included in the model portfolio to which they are assigned. Effective May 24, 2006 K&A has encouraged clients to hold such securities in a separate account for the client. Because K&A is a "fee only" registered investment advisor" it charges its normal management fee for monitoring such securities in the separate accounts in which they are held.

K&A makes every effort to exclude securities that are 'requested by the client' from the modeled portfolio accounts.

The investment objectives of various accounts and models may be substantially different from one another. Therefore topics or investments mentioned in E-llumination may or may not apply to specific managed accounts and/or models.

Trades or adjustments to accounts mentioned in ELLUMINATION may or may not happen in every account managed by portfolio managers at K&A.

If you are not satisfied with the investment results in your account it is your responsibility to inform Krsek or Andrae and to discuss possible changes that can be made to the account to accommodate and satisfy your needs.

The assets held in managed accounts at K&A Asset Management, LLC may include stocks, bonds, cash, commodities, foreign exchange or mutual funds or exchange traded funds (ETF's), money market accounts or limited partnerships that represent the same. They are subject to market fluctuation and the potential for losses. The assets are not insured. The value and income produced by these investment products may fluctuate, so that an investor may get back less than they initially invested.

The portfolio managers at K&A Asset Management, LLC do not guarantee results.

Past performance should not be considered an indicator of potential future performance. If you do not consider yourself suitable, either emotionally or financially, to experience volatility and/or losses in financial markets, you should not invest.

From time to time Krsek lists the simple annual returns of the six model accounts in this newsletter. These accounts are "models" and do not represent the actual results accruing to individual accounts. Simple annual return does not represent "time weighted return" as reported individually to clients in their quarterly reports prepared using Centerpiece.

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Sincerely,

Paul Krsek
Updated: August 13, 2007