



## ELUMINATION

November 1, 2007

### What Glitters is Gold or Google!

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We went into the month of October a little nervous. After all it is the month during which lots of bad things have happened in the market. At the same time we were extremely confident that we had the model portfolios very well positioned to take on the markets and come out a winner. Well, the month is over and the models could hardly have performed better. October was a gangbuster month for all the models, despite the fact that Smith & Wesson imploded right near the end. Check out this table of our monthly and year-to-date performance for our six model trading accounts.

Model	October % Change	YTD% Return	Net for Fresnel (1)
Hatteras	8.31	19.05	
Mendocino	5.98	19.27	
Halifax	2.84	19.84	
Bonavista	3.82	15.84	
Fresnel	7.02	26.08	20.86
The New World	14.93	30.65	
S&P 500	1.55	9.24	
(1) After calculation of managers performance fee			

As I always disclose, when I use this set of numbers, these are the returns for the six actual model trading accounts I use daily, and not the entire model group. If your account(s) is in one of the model groups then your returns should be very similar to these, if you have been invested in the model since January 1, 2007 and if you are not taking cash distributions from your account.

Those of you who are invested in the models know that September was a spectacular month too. You also know that all the models are significantly outperforming the indexes that we usually compare them with; and have been for a very long time.

That begs the question as to why the performance for the models has been so great for so long, and there are LOTS of answers to that question. But in the end I could make you an argument that it could all be boiled down to two words—GOLD and GOOGLE.

Now let me tell you a story that I actually wrote about a week ago, well before the month end....

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In early 2002 I was sitting with the person that I refer to as Alpha and we were engaged in the annual review of Alpha's investment accounts managed by K&A. Alpha has that name because this particular client had been with me since long before K&A was started, going back to the Edward Jones days. Alpha was the first to know about my desire to leave Edward Jones and start my own firm and Alpha was the first to indicate interest in making the transfer if K&A came into existence.

The truth is that without Alpha there probably would not have been a K&A Asset Management, LLC.

I named Alpha because the term, which is derived from Greek, is both a symbol and term used to refer to or describe a variety of things, including the first or most significant occurrence of something. That is certainly what Alpha has been to K&A.



In early 2002 we were in the midst of the previously mentioned review and Alpha asked me, “What do you think of gold?” I responded that during the past 20 years or so that gold had been a trading or hedging vehicle, but that longer term profits had been very hard to come by. The fact is that Alpha knew that. Using 20/20 hindsight we now know that Alpha was raising the question at a time that turned out to be the absolute bottom for gold prices. (See the lower blue circle in the chart). In fact it was right about the time of what is known as a “double bottom”. That is often a technically significant chart pattern that is signaling of a very definitive BOTTOM. That sure as heck turned out to true this time. Gold has been moving upward ever since.

We didn’t add gold to Alpha’s portfolio at that time, but it never left the radar screen after that conversation. In 2003 gold finally broke above a declining trend line that was over 20 years in the making. (see the upper blue circle in the chart). But new bull markets don’t often start in one definitive move. Gold actually fell in price again and “tested” the old bear market trend line. If you look closely inside the circle you can see that. But gold bounced back upward after that “test” and a new bull market was clearly signaled. During 2004 we started nibbling at gold and we continued to buy it right into 2006.

We wrote our first newsletter that was entirely dedicated to the topic of owning gold on August 13, 2004. In it we said, ***“Gold has never been an investment theme for us until last week. We have rarely invested in gold or gold stocks. Frankly gold has been a fool’s investment for almost 25 years. It hasn’t been a bad trading vehicle, but it has been terrible as a long term investment.”***

***We think that condition may be changing. Gold peaked in the early 1980’s at over \$800 per ounce. Gold bottomed just above \$270 per ounce in 2001. Today it trades at about \$400 per ounce.***

***Gold is probably overbought in the short-term and could easily pull back to the \$340-\$350 range. But longer term we think the market forces may be in place for a long-term secular rise in gold prices that could carry them back to the old highs—or higher.***

Well, it is more than three years later and we are at or near all time highs, depending on time frames measured, and clearly heading higher. We nailed it on gold.

Yet during May of 2006, after riding the price upward, we sold all the gold in our models, including Alpha’s accounts and booked profits. We sold at an average equivalent of \$719 per ounce. You can see the point on the chart at which the blue horizontal line is momentarily pierced in May of 2006. That is where gold first rose above its old weekly closing highs that dated back more than 20 years. We sold all the gold that was in the various accounts that we manage. We thought gold had moved too far too fast and was due for a substantial pullback. We got it just right again and sold at the top. To this day it is one of the best trades I have ever done.

Subsequently gold dropped just as we thought it would. But during 2007 it started to act like it was ready to move back up so we started accumulating again in February when gold had retraced to about \$650 on a cash basis.

It has now climbed past the 2006 highs and is on course to start an all new phase of a longer term bull market.

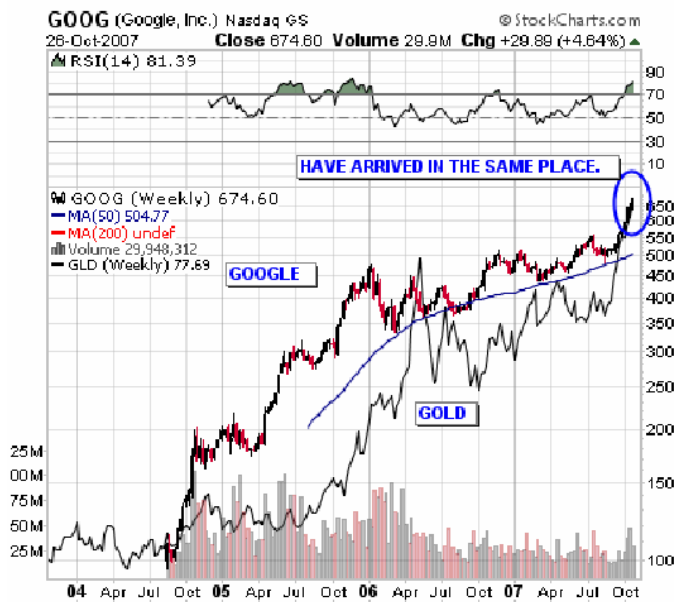
Yes, you read that right. Gold is now poised to break out to levels never seen before, and that is exactly what it is going to do. Another way for me to say that to you is that the upward trend in gold is getting new legs and should accelerate upward from here. Now, for the caveat I always give in conjunction with statements like this; it won't go up in a straight line.

In the case of gold, about which so many people remain skeptical, every pull back will be met by a chorus of nay-Sayers telling you that the bull market in gold is finished. Don't listen. I will tell you when the technical picture changes, and together we will be able to see the end of the bull market together on good charts. I'll show you when it happens. Until then, ignore the noise that you will be hearing about gold. Stay in gold.

What is most fascinating to me about the rise of gold is that very few people believed it would happen, except maybe Alpha, even as it has been taking place before our very eyes. Many K&A clients are more amused by their holdings in gold, than they are convinced that it is a serious investment alternative. I think that the majority of K&A clients are surprised by how well their gold holdings have done.

One of the reasons we have never loaded up more on the metal is the skepticism of our own clientele, let alone the disbelief of prospective clients that we talk to while attempting to bring them into the K&A family of investors. Gold is at new all time highs (on a weekly and monthly basis) and hardly anyone has caught on yet; except Alpha who got it right from the beginning.

Rob and I were talking the other day about the fact that we actually lost an account in early 2006 because the new chair of the board of directors of a local foundation didn't want to hear about gold. He thought it was a little too far off the chart for his organization. That is the truth! That is too bad; because it has been one of the best investments on the planet over the past few years. Want some proof of that claim?



Check out this chart that compares the movement of the price of gold (GLD), which is represented by the black line vs. the movement of the price of Google (GOOG), represented by the red and black line. As of the market close on Friday night, October 26, 2007 they had both moved up by almost exactly the same magnitude over the past 3+ years. In other words an investment in Google has returned about the same as an investment in gold. I'll bet you didn't know that.

Certainly their paths of progress have been different, but the end result has been about the same for both. As it turns out, 5 of 6 model portfolios managed by K&A own gold (GLD).

The 6<sup>th</sup> model portfolio owns no gold, but it does own Google (GOOG). That model is The New World.

To this day, if I mention both in the same sentence, most people would instinctively prefer to own Google over gold. At least that is my experience. Going forward I expect both of them to do fine. But I actually believe that gold has an easy chance to double in price over the next three to five years.

I don't know if Google has another double in it during that time period. We shall see.

I do know this much; gold is just now breaking out to new all time highs. Anyone who knows anything about technical structures would have to agree with me that is a VERY bullish signal. The best is probably yet to come. Yep, that's the truth of it; like it or not; believe it or not.

When we get to \$850 gold, the old single day high, the skeptics will be there to declare the top. I will be laughing to myself and thinking, you ain't seen nothin' yet.

All the best,

PK  
For K&A Asset Management, LLC

PS

*Are you wondering why this is happening? Have you not been paying attention to everything we have been writing about the fall of the dollar, gargantuan increases in U.S. and global money supply?*

*Probably you have been reading, and yet you are still wondering. All this is sometimes hard to put together, particularly if you don't deal with it every day.*

*Stay tuned. I will be writing more on this topic as it is one of the major investment themes of the decade. The next newsletter will focus on the continuing fall of the dollar against other major currencies; including gold. That fall has a long way yet to go.*