K&A Asset Management, LLC
Daily Ellumination Newsletter

Monday's Rally Was Very Different

In our last newsletter we offered five alternatives as to what might happen today in the aftermath of Friday's rally.

They were:

- The market starts back down as if to move to the bottom of the channel and does so. If that happens we are making new lows and that is a VERY BEARISH INDICATOR
- The market starts back down and "holds support" at the old low near the lower blue horizontal line and that is a NEUTRAL INDICATOR.
- The market starts back down but holds above 800 on the S&P 500 and 8000 on the DJIA then reverses and moves back and that is a SLIGHTLY BULLISH INDICATOR
- The market starts back down and holds above 850 on the S&P 500 then moves back UP to break out of the current channel on the UPSIDE and that is a VERY BULLISH INDICATOR
- The market doesn't retreat at all, and instead breaks out to the upside immediately (Monday) and that is an EXTREMELY BULLISH INDICATOR

Today the market rallied another 3% and that is an EXTREMELY BULLISH INDICATOR.

Here is the S&P 500 at the close today. What makes today's rally different from others in October, November and December is that this one moved the market out of its declining channel. Admittedly only for a day, but this is a first since the collapse of the market accelerated in September. The same move took place in the DJIA, the NYSE Composite, the Wilshire 5000, the S&P Midcap 400, the Russell 2000, The Nasdaq Composite Index, the Nasdaq 100 Index and the XLF Financial Select Sector SPDR. In fact the financials have been leaders for the whole move off the market bottom in late November.

U.S. stock market futures are now down for the evening and we are expecting the market to give back a little tomorrow. But it is looking more and more like set backs from here forward will be a chance to remove more of the short index trade we have had on, and to increase long exposure to individual equities, ETF's and mutual funds (depending on which model you are in).

Let me reiterate at this point that we have not turned into bulls. We still fully expect that the market will face significant hurdles in 2009 and could retest recent lows. But between now and December 31st the trend is up. There is a distinct possibility that upward trend could last right through the Obama inauguration.

Today we added a small amount of equity exposure by buying a few positions for the models and removing a small amount of the short hedge. Tomorrow we are likely to do the same.

We also added significantly to the bond allocations in all the models today except for The New World. We remain committed to building out the large bond allocations that we described a few days ago and will enter 2009 with large allocations to bonds in all the models, with the possible exception of The New World.

That's it for today. It's time to be a little more bullish.

Take care, PK

Paul Krsek
MANAGING MEMBER & CHIEF INVESTMENT OFFICER
K&A Asset Management, LLC
702 Trancas Street, Suite 200
Napa, California 94558
(707) 603-2672 Office
(707) 486-7333 Cell
(707) 224-2521 Fax
paul@kaassets.com
www.kaassets.com

Overcoming the Crisis One Day at a Time
K&A Asset Management, LLC
Registered Investment Advisors
702 Trancas Street, Suite 200, Napa, CA 94558
(707) 224-1340 www.kaassets.com

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 polices 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-Ellumination 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 Andreae 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.