



ELLUMINATION

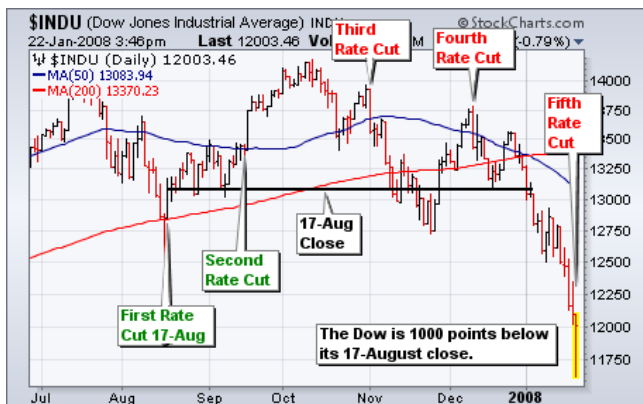
JANUARY 23, 2008

AMENDMENT TO 2008 FORECAST

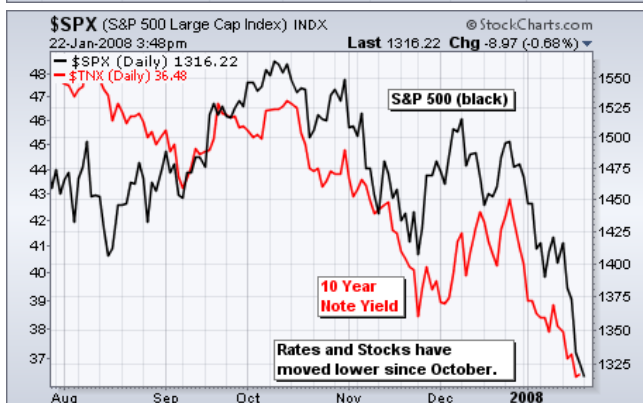
I spent much of today studying previous interest rate cycles, particularly periods when the Fed was cutting rates. I am amending our forecast regarding the Fed Funds rate for 2008. In our 2008 Forecast issue, and again yesterday morning, we told you that 3% was our target rate. I am amending that down to 1.5% before this cycle is over. Rates are likely to fall back to the Greenspan era lows in our view.

It is now widely expected that the Fed will bring the Fed Funds rate down to 3% next week. Goldman Sachs went on record forecasting that yesterday. If that happens, our previously announced expectation for cuts for the entire year will have been met. The current crisis is clearly bigger than any of us knew even a few short weeks ago, and will require more medicine to cure.

The Fed's surprise cut today did send a signal to the markets that they are trying to get back in front of this debacle. If they do cut again next week they will add confirmation of their intent to lead rather than follow. We would take that as confirmation that the Plunge Protection Team (PPT) is on duty, at the helm and wide awake.



We are amending our forecast and we think the Fed will be getting more aggressive because actions so far are clearly not working and the problems are spreading around the world. The USA is now exporting deflation, thanks to global bank participation in our subprime debacle. The sell off in foreign equity markets over the past couple of days is all the evidence you need to confirm that theory.



These charts are all you need to confirm that so far the Fed has been pushing on a string, and more drastic action is required.

One rate cut is never enough. We all should have known that once they started the Fed was initiating what would turn out to be a series of cuts. After the first rate cut on August 17th the markets went up. They went up again after the 2nd cut. But the 3rd, 4th and 5th cuts have been followed by market sell-offs.

The chart at the bottom confirms that both the stock market and rates have been falling. (Charts by John Murphy).

It is getting clearer and clearer to me that it is going to take more effort on the part of the Fed, and other central banks around the world to turn the tide of this downtrend.

Therefore we are revising our interest rate forecast for 2008 and our view of the bond market. Rates should go lower than we previously anticipated. Bonds might just do better than we expected.

It will take time for the stock market to recover. But the market loves rate cuts so they should eventually be stimulating for the economy and for stocks. Have I mentioned lately that you should own some gold?

We'll keep you up to date as things evolve.



All the best,

Paul Krsek
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-Illumination may or may not apply to specific managed accounts and/or models.

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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.

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