KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

WHERE DO WE GO FROM HERE?

As of June 30th, the S&P 500 is up 35.88% off the March 9th lows, but it is still down over 41% from the October 9th, 2007 highs. So the question on the table is do we retest the March lows or do we move up from here?

Of course, the answer is that no one knows for sure, and that either or both could happen over the next few months. What we do know for sure is that the market will move, so are you appropriately prepared for a move in either direction? Have you balanced out the risk of the markets moving down with the potential regret of loss opportunities if the markets rebound further? Since we can't have it both ways, we need to find a level of acceptable risk that is appropriate for our situation and then try to maximize the returns for that risk. This way we can survive a down-turn without being forced out of the markets at the bottom, but still be invested if there is a rebound.

This is a delicate balance that requires a constant monitoring, but is critical when investing for the long-term.

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Did you know?

* The average 30-year fixed mortgage rate for the past 30 years is 9.2%.
* Housing starts jumped 17.2% and new home sales increase 2.4% this past month.
* Unemployment, a lagging indicator, is at 9.5%, but personal income also rose 1.4%.

RISK MATCHING AND BUDGETING

One way to invest your assets is to parse them into specific piles that have different goals and timelines. Then each pile is invested according to that risk and timeline.

For example, perhaps you have the following goals:

- Have enough money to sustain your retirement;
- Pay for the education of your kids (or grandkids);
- Leave a legacy.

Each of these goals has a different timeline and probably a different risk associated with it.

Your assets for retirement might have a longer time-line with a low risk threshold, while your educational goal might also be low risk but have a shorter timeline. The legacy goal would probably be more long-term and have a higher risk profile since the money would not ever be needed by you.

Dividing up these assets into buckets and creating a different investment strategy for each of these buckets will more appropriately budget the risk of your overall strategy and will give you a better mechanism of changing the associated risks as the events unfold.

After each strategy is created, they can be combined into an overall strategy to invest all of your assets. That way you can be sure that you are not taking on too much risk such that your retirement is jeopardized, but that you have also taken on enough risk to maximize the legacy you wish to leave.

You don't plan on using your money in the same ways, so why invest it all the same?

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Principles that Outperform!

"You have to know the past to understand the present" — *Dr. Carl Sagan*

SOUND PORTFOLIO CONSTRUCTION

When it comes to losses, is there anything worse than watching the markets tumble month after month? This pain is very fresh in all our minds as we recently watched the S&P 500 collapse over 55% from peak to trough…over half of any wealth invested in equities vanished.

Beware! This could happen again and without your stocks shedding half of their values.

The Federal Reserve has decreased their over-night lending rates to banks to a range of 0-0.25% (basically zero) in efforts to simulate the economy (ironically, the current market melt-down is blamed on the Fed previously keeping interest rates too low for too long.) The Fed cannot not drop the interest rates further, so instead they are pumping money into the economy…lots of it!

Pouring trillions of dollars into the economy can have only a few possible outcomes. One scenario is that the Fed reduces the amount of money in the system and raises the interests rates at exactly the right time so as to not cause another recession, but holds off inflation. However, the more likely scenario is that the Fed waits too long (because that is what generally has happened in the past) and we see inflation at some point.

Inflation is the permanent killer of purchasing power, and just like you may have lost half of your investments during the latest market downturn, you could just as easily lose the value of your assets from inflation.

The assets that are hit the hardest by inflation, unfortunately, are what we have all turned to in efforts to protect ourselves from the latest problem: cash and fixed income. Inflation erodes their value just like a declining stock market cuts into your balance sheet. The outcome is exactly the same: the assets you have buy you less "stuff" — everything from cars to future security.

In order to protect yourself from this next big risk, a healthy allocation needs to be made in investments that will appreciate with rising inflation: hard assets. Hard assets can be anything from real estate to commodities to equities — all things that were hit the hardest recently and everything we are afraid of right now.

The markets have a funny way of finding our weaknesses and exposing them. Don't be caught without the proper diversification trying to protect yourself from the past when you should be looking towards the future.

KAM EVENTS!

Kruse Asset Management is planning to host some upcoming client appreciation events. Be on the lookout for the following:

- "Office-warming" party once our build-out is completed later in the Summer,
- Wine-Tasting Event in the Fall, and
- Client dinner in the Winter.