KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

LONG-TERM VIEW

Just over a year later from the March 9, 2009 lows, as of March 31, 2010 the S&P 500 was at 1,169.43 — that's a 72.85% rise! However, the market is still off 25% from the October 9th, 2007 highs. Where do we go from here? Will we rally above the highs or retrace back down?

Most likely the answer is "Yes" — the market will do both. Since most of us cannot time the markets, if we believe they will ever eventually reach and break through their previous "highs," the question is, how long? 3 Yrs? 5? 10?

The Markets first reached these levels back in September of 2000. While their has been quite a lot of movement, 10 years later we are back where we started. That's the bad news.

The good news is that every time this has happened in the past (low single-digit or negative returns for 10 years), the next 10 years were very good. The worst 10-year average return after a poor 10 year period was 7.8%/year, but most of the time returns were in double digits.

Historically speaking, the best time to invest feels like the worst in the moment.

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Did you know?

* Net flows to bond funds exceeded equities by $39 billion in Nov., 2009 (usually a counter-indicator).
* Historic Averages of "Bull Markets" are: over 5 years in length and 175% in returns — typically the deeper the recession, the stronger the come-back.
* Most recent recession: 3.8% decline in GDP (slightly worse than any other "recession").

WHAT CHOICE DO WE HAVE?

The US economy is hardly in good shape, so why should we put our money to work here?

What choices do you have? Look around at your options:

- **Bonds:** yes, you should have bonds in your portfolio, but in this environment they should be short-term. Short-term bonds yield low returns and they will not help your grow your portfolio over the long-term.
- **International:** not better off than the US. The UK and most of Europe has a higher debt to GDP ratio than us and seem to be trailing us in the recovery.
- **Emerging markets:** may grow faster and might have more opportunity, but are more volatile and prone to immediate sell-offs. You should have exposure, but not a huge allocation here.
- **Real Estate:** still soft and potentially declining. While there might be opportunity, waiting for Real Estate to stabilize probably makes sense. Take some nibbles, but go in cautiously.
- **Commodities:** extremely volatile and dangerous. You should have exposure, but not all of your assets can be invested here either.

US equities are left to be the main driver for any future portfolio growth. The rest of the world is doing this same calculation…

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Principles that Outperform!

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The most expensive words in Finance:

"It's different this time."

SMARTER THAN A 5TH GRADER?

The #1 question that I get is, "Where should I put my money now?" This question implies that since I am in the financial industry, I have an "inside" view as to which market, segment, country, sector will do better in the future.

The correct answer to this question is "Everywhere." While every person (in or out of finance) has their opinion, it has been shown over and over again, that regardless of how much hyperbole one uses to sell their case, they don't know which area(s) will succeed.

Statistical analysis of economist's opinions (even the best known and most respected) has shown that they are no better (and usually worse) than random guesses.

Why does it seem that some have been "right" more than others? Chance and Selection Bias.

Let's say I give 1,000 5th graders a coin. Each year I will ask them all to flip their coin to determine their individual "market direction call" for that year. For simplicity's sake, let's assume the market has a 50/50 shot of going up or down during that time.

After the first year, about half of my 5th graders would have made the right "call." Next year I do the same, and of those 500 5th graders that were correct the first year, now we have about 250 6th graders who have been right two years in a row. Continuing this exercise through high school, I'll be left with three "Seniors" who have been right every year since the 5th grade.

Maybe these three special kids don't need to go to college. Perhaps they should start their own hedge fund and make billions! Surely, these are the kids that I need to listen to from now on!

One might counter with, "this is a ridiculous analogy since economists base their opinions on analysis of data." While that is true, their "analysis" tends to do worse than chance. There are actually fewer economists that tend to be correct than odds would suggest. Said another way, our 5th graders would probably do better than those economists.

The bottom line is that nobody knows what is going to happen. If they say that they do, that tells you how little they actually understand.

It is okay to place bets by over and under-weighting areas that you believe make sense, but do not put too much faith into anybody who "got it right" in the past. As they say, "Even a stopped clock is right twice a day."

In investing, hunches lose; discipline wins.

KAM PARTNERS

KAM has been working very closely with a new company, **YCharts**.

Our belief is that **YCharts** is a better way to relay large amounts of complex and time-dependent information about the company's fundamentals to the individual investor.

Please visit www.ycharts.com and tells what you think.