KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

EQUITY OUTLOOK

Since the market melt-down that began in late 2007, that bottomed six quarters later in March of 2009, the S&P 500 has effectively doubled two years later. During the rebound, we have had only one major correction that lasted about two months and took away 19% of the gains.

Corrections are typical and they should be expected if you are going to be a successful investor in the stock market. Does that mean that we need to anticipate the next pull-back? No, of course not. Trying to time the market by getting in and out at near-term bottoms and tops, is difficult (if not impossible) for two reasons: you must be right on the timing of your sell decision and you must be right on the timing of re-investing back into the markets.

Getting back in is one of the most difficult "triggers to pull." If an investor was fortunate enough to sell at the right time, they generally look for another entry point when the market is more "healthy" and "feels better." Unfortunately, for that to happen, the market has to improve. But after the market has run-up off the bottom, most investors are reluctant to get back in because it has already run up. So the very thing that investors look for as a signal for a healthier market, is what prevents them from re-investing.

It is okay to make adjustments to your portfolio along the way, but be cautious of selling during the next pull-back — which will come — unless you have a disciplined plan of getting back in — JSK

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Did you know?

* The U.S. Makes up approximately 40% of the investible universe.
* 8% of the U.S.'s energy needs come from renewable sources.
* Adjusted After-Tax Corporate Profits (% of GDP) is close to a 50-year high (8.3%).
* The average Equifax consumer credit score is at 692 (up from 680 in 1999).

UP/DOWN CAPTURE RATIO

In an on-going effort to examine your portfolio, Kruse Asset Management has started reporting on Up Capture, Down Capture and the Up/Down Capture Ratio.

Simply put, the "Up Capture" is the percentage that your portfolio participates in an upwardly moving market. If the market is up 10% and your portfolio was up 8%, that participation rate would be 80% (8%/10%).

Down Capture is calculated the same way, but in downwardly mobile markets.

If the ratio of the two scores, Up/Down, is over 100%, that means that for your level of risk and participation, your portfolio is doing better in "up" markets than "down."

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Principles that Outperform!

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"Hope is not a strategy."

"BONDING"

As we entered the 1ST quarter of 2011, one could almost feel as if they had seen this act before; Rates were backing up, continuing with what began in the 4th Q of 2010, as investors were selling treasuries and looking to shorten duration where they could. With QE2 in full swing and the economy continuing to gain traction the market began to look at potential inflation and the Fed's roll in the market place. The Yield curve continued to be at or near highs as the economy showed strength.

With the increase in economic activity and as commodities prices continue to climb, TIPs and bank loan asset funds have become in vogue. TIPs enable the investor to gain inflation protection, as these bonds are semiannually adjusted for inflation. Bank Loan assets adjust monthly according to short term rates, giving the investor protection as rates rise; also shortening duration of portfolio if moving from longer dated paper. This paper will generally trade at a discount in a falling rate environment and a premium in a raising rate environment. High Yield instruments also stay in favor as the economy picks up lessening the risks of default. The two best sectors returns this past quarter were High Yield (+3.9%) and Tips (+2.1%) while the worst performer was treasuries (-0.2%).

Last year at this time the talk of a double dip recession began to take hold and led to a significant rally in Fixed Income prices in particular U.S. Treasuries. This year the only double dip fears are in the housing market, what has giving a small boost to U.S. Treasuries in late February and into March has been the turmoil in the Mideast and the devastating earthquake in Japan, which led to a flight to safety. It is still too early to see what effect the Japanese insurance companies will have on the market place as they begin to liquidate fixed income asset to pay off the billions in claims needed to rebuild Japan.

Municipal bonds took a different path as they continue to remain a tough sell. Even with a nice back up of rates already from the last half of 2010 and a market that looks over sold, Municipal Bonds still seem to come under pressure. As more states come to terms with their debts you should see the market place reward States that address their problems and continue to punish those states that don't.

Where does this leave us for the 2nd quarter? Look for treasuries to give back their late March gains as the market sees this as a selling point. With Pimco (Bill gross) announcing that their total return fund has no exposure to US treasuries look for the herd mentality of the street to do the same. High Yield and TIPS should continue to do well as investors seek out yield, inflation protection and ways to shorten their duration exposure. Lastly, keep an eye out for Fed; QE2 is almost finished, will the hawks in the Fed gain some leverage?

— Matt Kraus