KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

BOND OUTLOOK

The 3rd quarter witnessed the continuation of the yield curve flattening from historic highs in the 1st quarter, with yields moving lower across the spectrum (not a good sign for growth to come). With the lack of inflation and the hint of deflation continuing to permeate the market-place, investors flocked to the safety of U.S. debt. Add the fear of a potential double dip recession on the horizon and with the Federal Reserve buying Government Bonds, the bond market continued to experience higher than normal returns. This lead to high inflows of cash into bond funds as investors fearful of a stock pullback and looking for safety and yield continued to dive into bond funds (reminiscent of the plunge into tech funds during the dot.com boom). All fixed income products saw a decline in yields. As U.S. government yields approached historic lows, investors sought out higher returns pushing Corporate, High Yield and Municipals Bond yields down also. The fourth quarter looks to be set up to continue this momentum, so be nimble and watch your allocations.

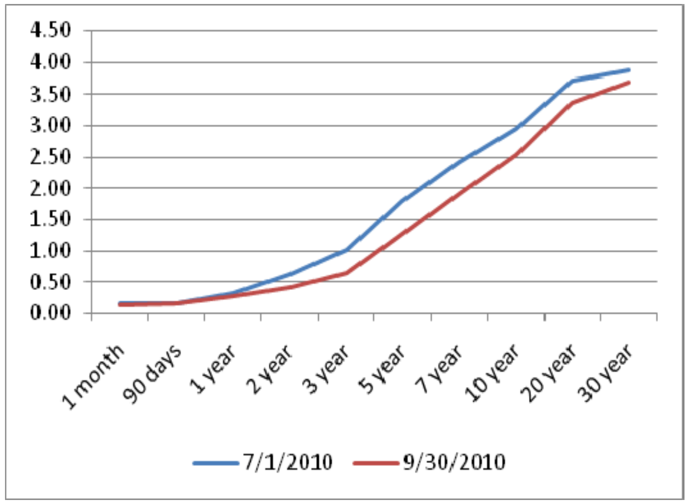

Figure 1: U.S. Government Yield Curve

Volume 3, Issue 2

In this issue:

September 30th, 2010

Did you know?

* After the 80's gold spike, prices dropped over 65% in the next two and a half years?
* The Taylor Rule would put the Fed funds rate at negative rate right now, so it might be years before that rate is raised.
* In the 12-months ending June, 2010, there were 50 million jobs lost, but 49.8 million hires (200k net loss), which is often indicative of an increasingly more efficient work force.

VALUE AT RISK ("VAR")

Kruse Asset Management has recently implemented VAR calculations on our clients' portfolios (something few advisors can do).

"Value at Risk" or "VAR" is a measurement that provides us with a guideline as to how much money is at risk given a certain time-frame and confidence level.

For example, if your one-day VAR is $1,000 at a 99% confidence level, that means that in any given day, we are 99% confident that the most your portfolio could lose is $1,000.

While we never want our clients to lose money, it is critical for our long-term plan to understand how much is at risk.

KRUSE ASSET MANAGEMENT, LLC

216 S Jefferson St., Suite 302
Chicago, IL 60661

Phone: 312-775-6000
Fax: 312-264-4557
www.KruseAssetManagement.com

Principles that Outperform!

J. Stuart Kruse, CFA
Amir Rafizadeh
Kurt Winiecki
Matt Kraus

There is a reason a cliché is a cliché.

STRUCTURED PRODUCTS

The terms "Structured Product" or "Equity Linked CD" sound complicated, but they can make diversification simple and safe.

Structured products are engineered to give an investor protection from a specific problem, while still allowing her to receive a benefit if the problem does not come to fruition.

For example, Kruse Asset Management likes to use "principle-protected" structured CDs when investing in some traditionally risky assets classes (like currencies). These CDs operate just how they sound: if held to maturity, your principle is protected. So, if the underlying investment (currencies in this case) goes down, the worst thing that can happen to your investment is that you get it all back.

On the other hand, if the underlying strategy goes your way, you profit — often more than had you invested directly into those securities.

How is this possible? Well, that part is slightly complex, but the gist is that the issuing bank will purchase a zero-coupon bond at a discount and use the "discount" to buy futures or call options on the underlying strategy. The zero-coupon bond will mature to its face-value (which is how you get your money back), and if the underlying investment increases, the option portion will pay-off too. However, if the underlying declines, then the option expires worthless, and the investors still get the payout from the bond.

Besides principle-protection, these "structures" can take on a variety of forms like:

- Downside buffer,
- "knock-out,"
- "Shark-fin" and
- "step-up."

Each one of these structures provides a different pay-out profile, so you need to understand where your are taking risk and what you are protecting yourself from. Often times the risk comes in the form of limited profit or gains being wiped out completely should a particular event take place. As such, you need to match your investment goals with the structures.

Also because these instruments are structured in the form of a CD, your returns are paid in interest, which is taxed at your ordinary income rate, so they might be best used in a tax-deferred account.

The flip-side is that these CDs are FDIC insured, so while you take on the credit-risk of the issuing bank, you have additional protection against default (just like in any CD), so these products are extremely safe.

KAM PARTNERS

KAM is very proud to become Apollo MD's financial partner. Apollo MD provides an outsource solution of Emergency Medicine, Anesthesia & Radiology Services to hospitals, heath centers and surgery centers.

Kruse Asset Management provides Apollo MD with asset management and advanced retirement planning for their 1000^{+} ER doctors.