KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

THANK YOU

Welcome to the first edition of the Kruse Asset Management Client Quarterly Up Date!

First, I would like to thank you for joining my family of clients – I use the word "family" because that is exactly what you are to me as I invited only a small fraction of former clients to come with me to my newly formed firm – clients with whom I've not only developed a strong, trusting relationship, but also those who I enjoy working with. I am very excited to begin this new venture with you and look forward to many, many years of success and prosperity.

The Happy Family of Kruse Asset Management

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In this issue:

Kruse Commentary:

* Open Lines of Communication means a better exchange of ideas.
* Thinking with your heart can be good for Love, but very bad for your Portfolio!
* Whoever said, "Timing is Everything," was a terrible investor.

RISK = VOLATILITY?

When trying to manage risk, volatility is usually on the radar. In fact, Business School 101 tells us that volatility IS risk! Well, that is not entirely true, but no matter how you slice it, volatility often plays the lead role, and the first half of this year was no exception. Everything from the S&P 500, Dow Jones and NASDAQ to Commodity Prices of Oil, Natural Gas and Metals through interest rates as of late have shown a decent amount of volatility through Q2. Fortunately, most of that "volatility" in the stock markets have been to the up-side, with a few small pull-backs along the way.

So, now would be a good time for a reminder that often times, long, sustained Bull markets have corrections or periods of "consolidation" before they are able to move on to higher highs. Meaning, should you see the markets back off, DO NOT PANIC. A well-diversified portfolio should carry you through the bad times, and put you in a better position to take advantage of the situation (which is usually taking advantage of the people who trade with their emotions). Discipline is the name of the game when it comes to investing, and I am your drill sergeant.

Index	1/1/2007	Low	High	% Range
S&P 500	1,418.03	1,373.97	1,540.53	12.1%
Dow Jones	12,459.54	12,064.91	13,723.37	13.7%
Nasdaq	2,429.72	2,340.40	2,631.45	12.4%
10-Yr Treasury	4.766%	4.625%	5.362%	15.9%

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Improving Your Odds of Reaching Your Goals

Definition of Aligned Interests:
I reach my goals by helping you reach yours.

HEADWIND OR TAILWIND

The markets have been fueled by several factors including strong domestic and global economic growth, but also have some headwinds, such as rising interest rates.

The consumer may be somewhat wary, given the current housing environment and subsequent lack of liquidity, as well as the headline risk of the sub-prime melt-down and recent hedge fund fiascos at Bear Stearns. However, these events, although newsworthy, are very small fractions of their respective overall markets whose importance should not be over-blown (as the media has a tendency to do when trying to market to their subscribers).

I believe the markets will remain on solid footing due to a coupe of reasons:

1. Tame inflation expectations (which is generally a reasonable predictor of actual inflation), and

2. Market valuations that seem to be at reasonable levels when looking at various measuring sticks such as the Price to Earnings Ratio, and the Earnings Yield Relative to the Treasury Yield (which show our markets actually at a discount to Fair Market Value).

Long Term Outlook: Equities are more likely to outperform fixed income, so slightly slant your portfolio accordingly.

SOUND PORTFOLIO CONSTRUCTION

Asset Allocation, Diversification, Rebalancing and Discipline are the four cornerstones of a good investing strategy.

Asset Allocation: Do you want to Eat or Sleep? Having a higher level of risk, should (in the long run) give you greater returns, but will you be able to sleep at night knowing that your portfolio acts like a rollercoaster? On the other hand, taking out all the risk gives you returns that barely keeps up with inflation, potentially not allowing you to eat. It is up to you to find that perfect place where you can eat and still sleep.

Diversification: If the three keys to success in Real Estate are, "location, location, location," then you can guess what the three keys to Portfolio Management are. The more diversified you are, the more reward you can get per unit of risk you can sleep with (see Asset Allocation).

Rebalancing: You've heard the phrase "Buy low, and sell high," right? That is what rebalancing is: taking some money off the table after a run-up and putting into a contrarian position that is probably now undervalued, which you may be resistant to do, bringing us to the next point:

Discipline: Study after study has shown that disciplined investors beat those who react emotionally, because we, as humans, tend to be wired exactly the wrong way for successful investing. The way to conquer that short coming is to remain disciplined.