KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

BEAR BONES...

From my vantage point, the biggest story of First Quarter 2008 was the almost instantaneous demise of my former employer, Bear Stearns. And while this was certainly bad for many of my friends who held substantial positions in Bear stock, the ultimate absorption of Bear Stearns by JP Morgan at a considerable discount to Bear's assets was most likely highly beneficial to the marketplace. In spite of the initial panic and even follow-up speculation as to which other companies might also topple, aggressive actions were taken by the Fed to ensure the continuity of the market and reduced the tremendous counter-party risk associated with a potential failure of a Bear Stearns.

So while Bear did not technically go bankrupt, its assets were absorbed into the system at a 90% discount and this consolidation was also helpful to the marketplace (especially JP Morgan). We have seen market approval in the form of stabilizing deals like Lehmann Brothers being able to access large amounts of capital at highly favorable rates as well as declining yields (rising prices) on bonds issued by financing companies (which indicates higher confidence in those companies).

So after 85 years of uninterrupted profitability, Bear Stearns becomes the sacrificial lamb (lion?)

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Did you know?

* In the past 35 years, the S&P 500 has only been down 5 months in a row four other times — the worst streak happened in 1974 where the S&P 500 was down 9 consecutive months.
* On September 30th, 1974 the S&P 500 was at 63.54 — since then the S&P 500 has increased over 21 fold!

FINANCIAL BEHAVIOR BASICS

Let's say you bought two stocks, ACB & XYZ — both at $100 per share. One week later, stock ABC is a $105 and XYZ is $95 per share.

Now you need to raise some capital and you are trying to decide, which one to sell (all other things being equal).

The average person might think that a 5% profit in a week is a pretty nice return (they even might go as far as extrapolating the annualized returns 5% x 52 weeks = 260% annual return; weekly compounding would yield 1,164%...Wow!)

On the other hand, one might want to wait for that $95 stock to rebound so he might at least recoup his unrealized losses. After all, you haven't actually lost any money until the stock is sold, right?

This is yet another example of how the average person is wired wrong for successful investing.

History has shown us that relative strength is often a good indicator of future performance. Said another way, a stock that has risen during a time where another stock has declined (or not risen as much) will likely continue to out-perform the lagging stock.

Oddly enough, the stock does not care whether you personally happen to be profitable or not. If it has been weak in the past, there is typically a reason for the weakness, and conversely a strong stock tends to remain strong.

After all, you wouldn't bet on last year's worst team to come back and win it all this year; and you should not think a stock will be different.

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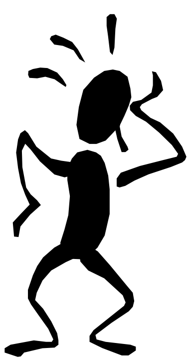
Improving Your Odds of Reaching Your Goals



"Experience is that marvelous thing that enables you recognize a mistake when you make it again."

F.P. Jones

KNOW YOUR OPTIONS

Are options risky? Just like any other investment, if used in a particular way, they can be very risky. On the other hand, options can be among the safest strategies you can employ. In fact, there are some option strategies where you can guarantee that you make money on the transaction — that's right, some options strategies make it impossible to lose money. That is not to say there is no downside to the that strategy, but if you are looking for safety, perhaps you might want to consider a "covered call" strategy.

Buying a "Call" option on a stock is simply paying another person the right (or the "option") to buy that stock at a particular price (the strike price) within a particular time-frame (expiration date). When you **buy** an option, you are buying the *right* to do something; if you **sell** an option, you now have an *obligation* to do something.

So, if you sell a call option, you now have the obligation to sell the stock at a particular price (strike price) within a set time-frame (expiration date). Since you **sold** the option, you get money (premium) for that sale that is yours to keep no matter what happens to the price of the stock — even if the option is never exercised by the buyer of that option.

Now, if you already own the underlying stock of the call option that you just sold, you call option is "covered." In other words, if the buyer of the Call wishes to exercise his right (or option) to buy a stock at a particular price, and if you already own the stock, then you simply sell the stock to that person at that price. So not only do you get the money for selling the call option in the first place, but you also get the exercise price for each share of stock that is being called away. And if the strike price of the option is above the purchase price of the stock, this guarantees that you make money on both transactions.

The risk is that you give up any up-side above the exercise price should the stock move higher; and if the option doesn't get exercised by the expiration date, just sell another option, collect the premium, and do it all over again.

PORTFOLIO PLATFORM

During this election year, my political platform is affirmative action for stock portfolios. When there are under-represented investments in your portfolio, I will push for equal opportunity for all investments to be considered.

Large Cap stocks seem to get all the investment attention. They have media coverage and familiarity, while minority asset classes, such as mid-caps, small-cap, REITs, Commodities, Currencies and even International Stocks often get over-looked as integral parts of your investment platform.

Investors use corporate and government bonds effectively, but what about International bonds or high-yield bonds? TIPs, Mortgaged-backed and CMOs may also have a place in your world.

Don't overlook valuable resources that can do your portfolio good just because there have been similar looking investments that have tarnished the reputation of respectable choices.