



K E R N S

CAPITAL MANAGEMENT, INC.

Kerns Capital Management Market Report

February 16, 2010

Clients and Friends,

U.S. equity markets broke their three week losing streak last week and are rising aggressively today.

Our largest sector holdings - Materials, Energy and Industrials - led last week's increase with 1-2% gains.

We think the market has an excellent chance to finish the year up. If you refer to our January 1st newsletter (available at KernsCapital.com) you will see why.

We also feel that the recent pullback is essentially over and the bull market will continue - although not as robustly as last year.



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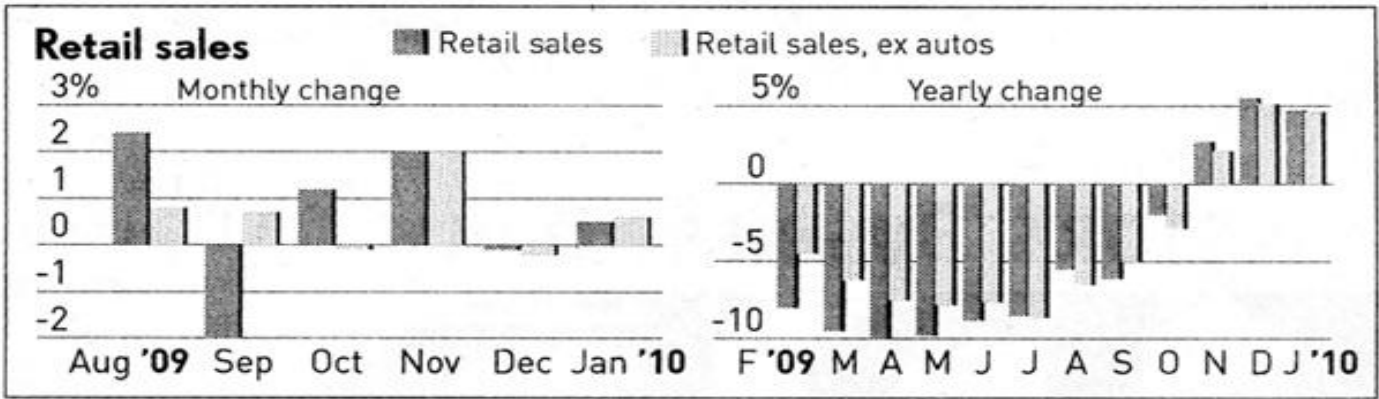
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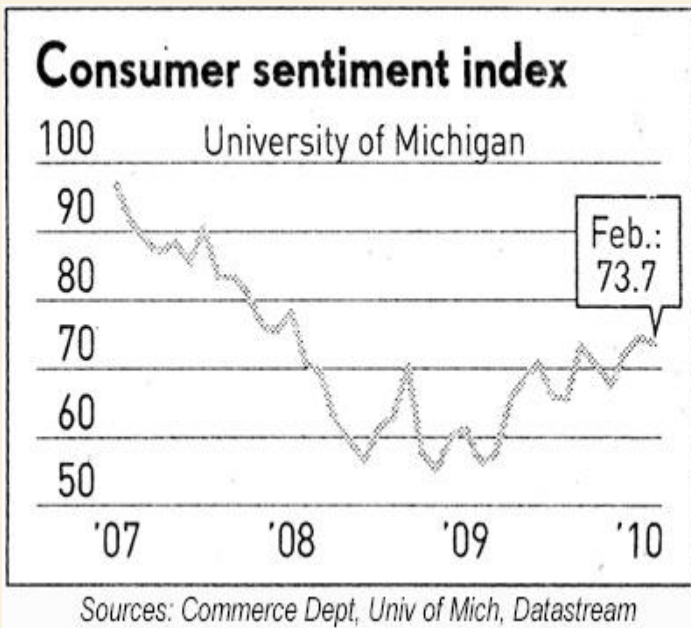
[Market Overview](#)

During the 4th quarter of 2009, the U.S. economy expanded by an annualized rate of 5.7% - the best quarter in almost six years. While the U.S. is not expected to grow this robustly during 2010, it has turned the corner from contraction to growth.

Economic growth continues to show improvement as evidenced by improving retail sales and consumer sentiment.



Retail sales growth has not had a significantly negative month since last September and year-over-year growth turned positive over the last three months!



Consumer spending represents roughly 70% of the U.S. economy. Therefore, how the consumer feels about their future is the "Key Ingredient" to whether they hold onto their money or begin to spend it.

The chart at the left shows that consumer sentiment, as tracked by the University of Michigan Consumer Sentiment Study, is closely watched. It shows consumer attitudes toward spending are improving.

There is no question that there are economic head winds throughout the global economic structure. However, I like to use the comparison of our annual summer vacations from Kansas to Colorado when I was a child. Kansas has an elevation of about 1,000 feet where we lived. Our vacation destination had an elevation of about 8-9,000 feet. One never really noticed the climb over the 500 mile drive.

Even when we started into the mountains, if we only looked through the windshield, all we saw were more mountains to climb. However, if we looked out the back window, it was amazing to see how far up the mountains we were. I think we not only need to look at the obstacles in front of economic growth - but look back and see how far we have progressed since last year. When things are getting better is the time to own stocks!

How Are We Doing?

All our models are up for the month with gains ranging from a little over .25% to just under 1%.

All investments involve some level of risk. We put a lot of effort in managing risk, but cannot avoid all risk. All our holdings are highly liquid, and I do not hesitate to take steps to limit our drawdown as we feel it is necessary.

In response to the market correction that started three weeks ago, (and we feel that it is a normal correction in a continuing bull market), we gradually decreased our exposure to the market by taking profits (selling) on some holdings we felt had more risk than opportunity. At the same time we added downside protection. The combination of these two processes reduced our market exposure in KCMTX from just under 100% to roughly 50%.

Late last week, when the market began to show signs of strengthening, we reversed the process. The drawdown in the market created opportunities to pick up some bargains. KCMTX now stands roughly 80% invested and is leading the S&P 500 for the month. KCMTX is held in our Aggressive, Moderate and Conservative (non-401(k)) models in varying percentages.



The chart above shows the performance of our (non-401(k)) Aggressive and Conservative Models compared to the S&P 500 (with dividends) from September 30th 2008 (which was shortly after the formation of KCMTX), through February 12, 2010. As the chart shows, Aggressive has outperformed the S&P by 22.50% during the period and Conservative has outperformed by 16.06%.

Note: For 401(k) plans without self-directed brokerage accounts, please see your Plan's monthly Investment Performance Summary for actual performance.

[KCM Macro Trends Fund](#)

The **KCM Macro Trend Fund** (KCMTX) ("the Fund") is an out-growth of the model portfolios we have been successfully managing for our clients for more than 15 years. It is a proprietary fund open only to our clients and Investment Advisors (for their clients) via Fidelity, Charles Schwab (**now NTF**), TD Ameritrade, Pershing, Southwest Securities and Trust Company of America.

For more information about the Fund, including its objectives, strategies and performance, please give us a call at (800) 945-2125, or click on the following direct links: [KCM Macro Trends Fund](#) or [2009 4th Quarter Fact Sheet](#) (FINRA reviewed).

In Closing

I noticed today that one of the major brokerage firms was advertising a mutual fund with the caption "Go Anywhere Investing". I am surprised that they are just now catching on to what we have been doing for over fifteen years - buying what works and taking defensive action when we need to.

China, Vietnam and other Asian countries' markets are closed for the entire week to celebrate the Lunar New Year. Brazil will be celebrating Carnival all week. Most of Greece is on strike. As an American, I look at this as an opportunity to get ahead of the competition!

Lane Kerns

Important Notice & Disclosures

Performance data is historical. Past performance does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

Kerns Capital Management, Inc. ("KCM") performance figures represent a composite of all individual portfolios managed in accordance with the investment category, are after the deduction of KCM's actual management fee, and include reinvestment of dividends and earnings. The composites contain accounts structured with mutual funds that are managed with a view toward capital appreciation. Standard Deviation and Alpha are calculated monthly and then annualized to be consistent with Morningstar®.

Mutual Fund investing involves risk including possible loss of principal. Investors should carefully consider the investment objectives, risks, charges and expenses of the **KCM Macro Trends Fund**. The Fund may invest in small, less well-known companies, which may be subject to more erratic market movements than large-cap stocks; foreign securities, which are subject to currency fluctuations and political uncertainty; and derivative securities, which may carry market, credit, and liquidity risks. The Fund may also engage in short selling activities, which are more risky than "long" positions because the potential loss on a short sell is unlimited. These risks may result in greater share price volatility. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 1-877-275-5599. The [Prospectus](#) should be read carefully before investing. The KCM Macro Trends Fund is distributed by Northern Lights Distributors, LLC member FINRA/SIPC.

The S&P 500 Index is an unmanaged composite of 500 common stocks. This index is widely used by professional investors as a performance benchmark. You cannot invest directly in an index. **The Dow Jones Industrial Average** is a price-weighted average of 30 of the largest and most widely held stocks traded on the New York Stock Exchange and the Nasdaq.