



K E R N S

CAPITAL MANAGEMENT, INC.

Kerns Capital Management Market Report

March 1, 2010

Clients and Friends,

After an incredible gain of 72.5% from its low on March 6th of last year to January 19th of this year, the S&P 500 closed at 1,150. Over the next 13 trading days, it then fell a little over 9% to its daily low on February 2nd.

Considering its fantastic run from last March, a correction of only 9% seems hardly worth mentioning. However, when you are living through it, it can be scary.

Since the bottom of that 9% correction on February 2nd, the S&P 500 has rallied back almost 7%. We think it has much further to go!



We believe that correction was the typical "first correction" that occurs in almost all bull markets. This "first correction" is almost always followed by a second leg continuation of the bull market - giving us an opportunity to collect substantial additional profits!

(For a more detailed description of how this pattern has worked over the seven Bull markets since 1900, go to KernsCapital.com and click "Market Report Newsletters" at the bottom right of our home page. Go to the "Market in Perspective" section of our January 4th letter.)

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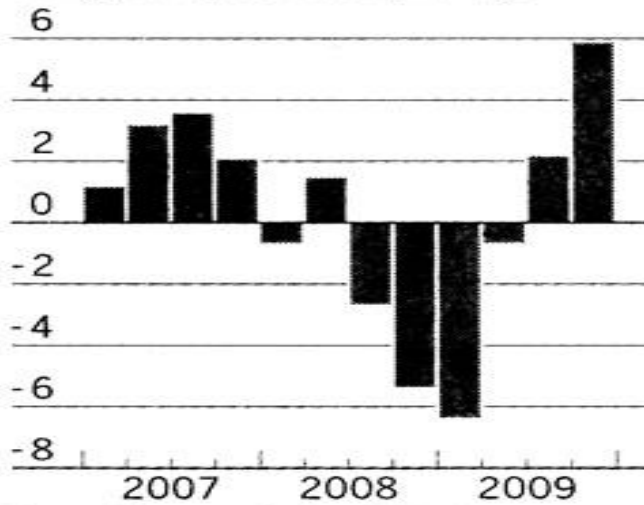
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Since the prior section gave away our conclusion about which way the market will finish the year, this section may seem redundant. However, I do think it will answer a lot of questions about why we do not have all green lights in front of us.

Looking up

US GDP growth (annualised % change on previous quarter)



Source: Thomson Reuters Datastream

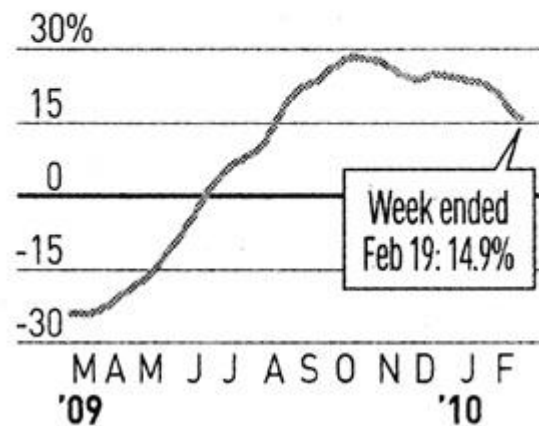
The "Looking Up" chart at the right shows that the U.S. has definitely passed the bottom of this economic recession. We have gone from an economic contraction last year to robust growth over the last few quarters.

However, while the U.S. grew at a 6-year-high pace of 5.9% in Q4 of 2009, it is not expected that this pace will be maintained.

The Growth Outlook chart below from the Economic Cycle Research Institute (ECRI) shows that the economic recovery is slowing. Please notice that it is still projecting growth - just slower growth.

Growth Outlook

ECRI said the growth rate of its U.S. leading indicator fell to a 28-week low last week, indicating that growth will ease by midyear



Source: Economic Cycle Research Institute

The ECRI has had the best track record at determining the direction of the economy, so it is closely watched. Their track record has been better than that of the government economists at predicting the economic direction of the economy.

I must remind everyone that the U.S. economy is not the U.S. stock market. The market itself is a good predictor of the economy and usually leads the economy by six to nine months.

This economic recovery appears to be less robust than many prior recoveries and there is much concern that it will be slow to provide jobs for the unemployed. Additionally, the government overspending required to get an economy restarted after a recession will in itself create problems down the road.

Remember, stock prices and dividends increase because individual companies make profits. While a robust economy helps companies make money, good management will almost always maintain profits

regardless of what the economy does!

We try to make it a point to invest in companies with growing profits created by growing earnings and sales. Those companies that have growing earnings and sales and a strong financial statement will always attract investors in any economy, especially one like this, where weaker companies struggle and fail.

During the 1990's, an investor could make money picking stocks by throwing a dart at the Wall Street Journal. Not in this market! Also, buying an Index fund gets both the weak and the strong companies and will most certainly underperform an active successful stock-picker.

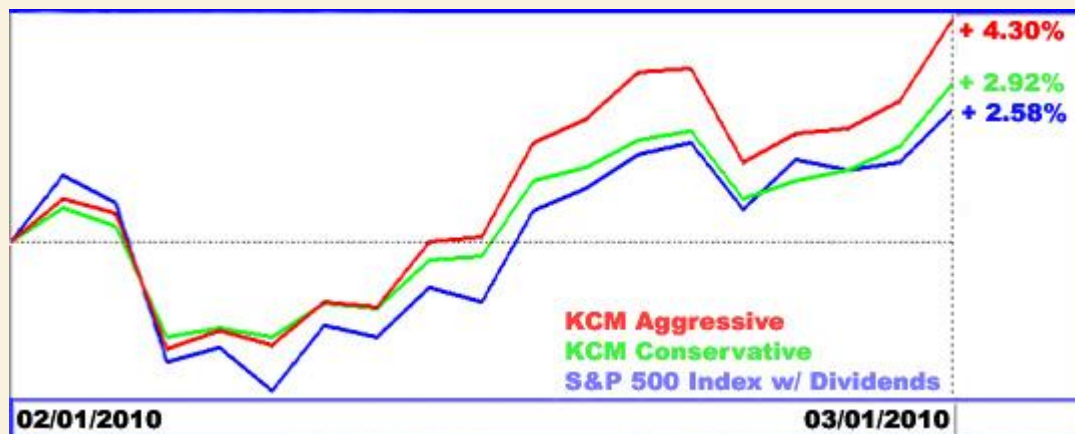
How Are We Doing?

The markets recovered strongly during February delivering one of the strongest February's in several years. All of our models were up for the month with Aggressive outperforming the S&P 500.

As the market began its improvement, we moved from a market exposure of roughly 50% on Aggressive to 93%. We did this by gradually reducing our hedge and increasing our long positions. With the strong market performance today (March 1st), we will be increasing our exposure even more - approaching 100% of the portfolio.

Warren Buffet has been quoted as saying that **"If The Business Does Well, the Stock Eventually Follows"**. I believe that. The stock will eventually follow regardless of the economy. Jim Cramer says it another way. He says, "there is always a Bull market somewhere".

The chart below is for the period from February 1 through today (March 1), to illustrate the benefit of our change in exposure during this market recovery.



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, Trust Company of America and many

other platforms.

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

Last week Marty and I attended a meeting of investment advisors here in Houston. There were about 50 attending and several visited our office to learn more about our mutual fund (KCMTX). Some are already investing their client's money in the fund and others expressed an interest in doing so.

All of us here at Kerns Capital Management want to thank our clients and the other Investment advisors who have put their confidence in us and our management. There is no greater compliment than the positive comments of one's peers.

As St. Patrick's Day approaches, may we all find the pot of gold at the end of our rainbow.

Our best to all of you,

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.