



K E R N S

CAPITAL MANAGEMENT, INC.

Kerns Capital Management Market Report

April 1 , 2009

This will be a short letter. I have included two charts - one showing year-to-date performance and one long-term performance chart.

Additionally, I will comment a bit about where I think the market is and where it may be going.

Predicting the market is always a risky proposition. We seem to get it right more than we get it wrong but I am constantly reminded of the old saying - "Better to remain silent and be thought a fool than to speak and remove all doubt."

Having said that, I will still make some comments.



IN THIS ISSUE

[How Are We Doing?](#)

[Bear Market Rally or Market Bottom?](#)

[Website](#)

How Are We Doing?

In the first chart below, you can see how our clients have done for the first quarter of 2009. January and February were a continuation of very damaging months for the market and we managed to miss most of that damage.

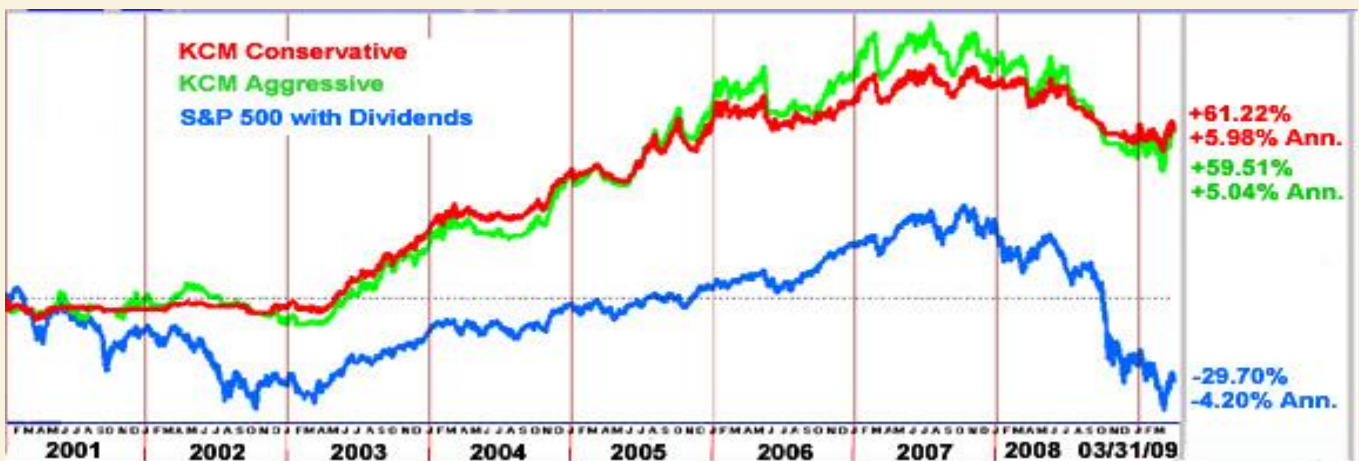
Throughout this terrible decline that began in October 2007, many people have held onto their stocks and not practiced safe-investing. Many continue to throw in the towel and take even bigger losses. This always happens to "Buy-and-Hold" investors as market bottoms are approached.

From the peak on October 9 2007 until March 9 2009, the S&P 500 declined 55.30%. That loss is after adding dividends back in. March on the other hand had a strong rally and finished as the strongest month since 2002.



Adding up the first three months of the year, it is obvious that we missed most of the decline and caught most of the rally so that we finished with a gain for the quarter vs. the S&P 500 which finished with a loss of almost 11% in spite of its strong rally in March.

The risk management philosophy we follow has substantially outperformed the market over longer periods as well. The chart below shows a comparison similar to the one above except that it covers the period from the end of 2000 through March 31, 2009.



For the period Conservative and Aggressive are up 61.22% and up 59.51% vs. the S&P 500 which is down 29.7%. While we have not been without some draw-downs, it becomes obvious that our models have outperformed the S&P 500 (with dividends) by an average of 9% to 10% per year on average.

Bear Market Rally or Market Bottom?

There is great discussion in the media and among market professionals about whether we saw the market bottom on March 9th. If that was not the bottom, then the nice rally we just experienced was nothing more than a rally on the way to a lower low. That could happen.

Whether we decline to a lower low or not, I feel strongly that we will decline and test the March low. That low will act as support for the market and will probably stop further decline. If we do not break lower we, as usual, will exercise a defensive strategy to protect capital. Regardless of whether the low of the year is behind us or in front of us, I also feel fairly strongly that the market will finish the year higher than it now stands. The old adage of "Sell in May and go Away" will probably manifest itself in a range-bound sideways market between now and the end of summer. Even if that happens,

we will probably add growth to our portfolios with our trading strategy.

Reasons why I think the market will be higher at the end of the year:

- The Fed has opened the money pumps. Money supply is growing above trend. Historically, when that happens, the excess cash finds its way into the market.
- The multiple plans of stimulus and rescue in process in the US and other major developed countries of the world are beginning to show some results. In some cases, the results are merely a slowing of the rate of decline - in others, outright improvement is starting to occur.
- Normally, when governments overspend their income, as ours is doing, the result is inflation and rising interest rates. That will eventually happen - but the Fed had embarked upon a program of "Quantitative Easing".

For you and me, that means they are overtly forcing interest rates lower. This is an intentional effort to lower interest rates on home mortgages and give banks bigger profit margins. This country's two biggest problems are the housing market and the solvency of financial institutions. The first signs of positive results are starting to show, much like flowers beginning to sprout through the soil as summer approaches.

- Some Money is beginning to leave the sidelines and move back into the market. Buying pressure is building and will continue to build.

Money management and economics are part science and partially an art. The above comments fall into both categories. I just have a subjective feeling based upon the data that the worst is behind us. We may or may not recover quickly, but we will recover.

I will stop here. Things are going well at Kerns Capital Management and we have added our mutual fund to more broker-dealer and trading platforms. New in the last month have been Pershing and IMS securities. We should also be available to advisors on Fidelity's platform soon.

Best to everyone from all of us here at KCM. Let's all hope that April does not fool us.

Lane Kerns

Website

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