



K E R N S

CAPITAL MANAGEMENT, INC.

Kerns Capital Management Market Report

April 15 , 2009

Another short letter. I have included two charts, one showing year-to-date performance and one discussing the severity of the current recession. Additionally, I will comment about where I think the market is and where it may be going.

There has been a feeling the last few weeks that some green sprouts were beginning to appear economically. Over the last few days, some of these sprouts have turned brown as it becomes obvious that, in spite of our willingness to grasp at any bit of good news, many of them will die or take a long time to bloom.

There is great opportunity during times of economic distress. We are buying stocks of good companies whose prices have been severely discounted as many investors have been forced to sell or have just given up. This is a once in a decade opportunity to build a portfolio at discount prices. The trick of course is to differentiate between the junk and the jewels.



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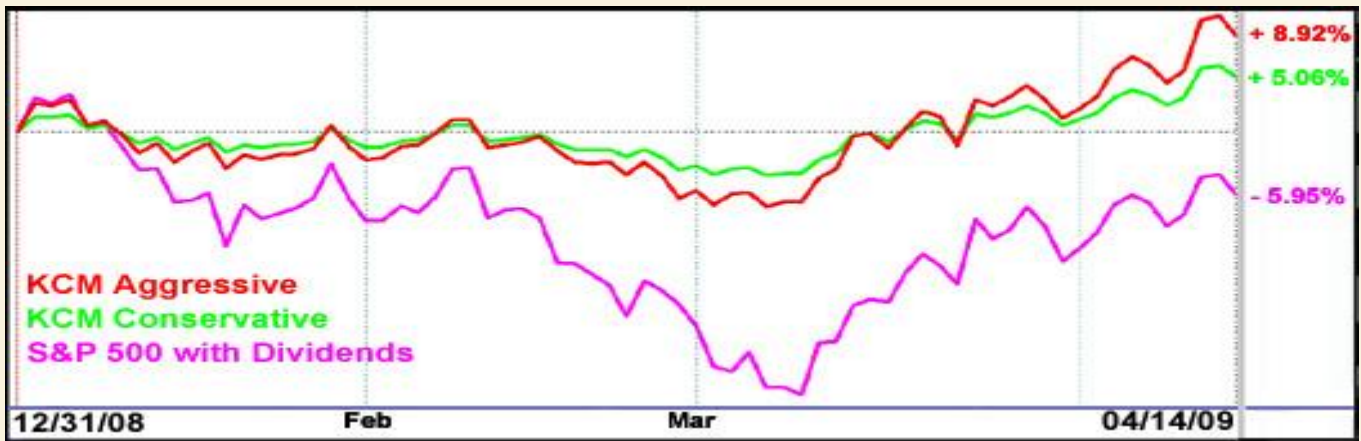
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How Are We Doing?

In the 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. Clients invested in our Aggressive model are up almost nine percent YTD. Our Conservative model is up over five percent. The S&P 500 is still down almost six percent.

Due to trading rules unique to 401(k) plans, actual performance in our 401(k) models will differ from this chart and may be more or less.

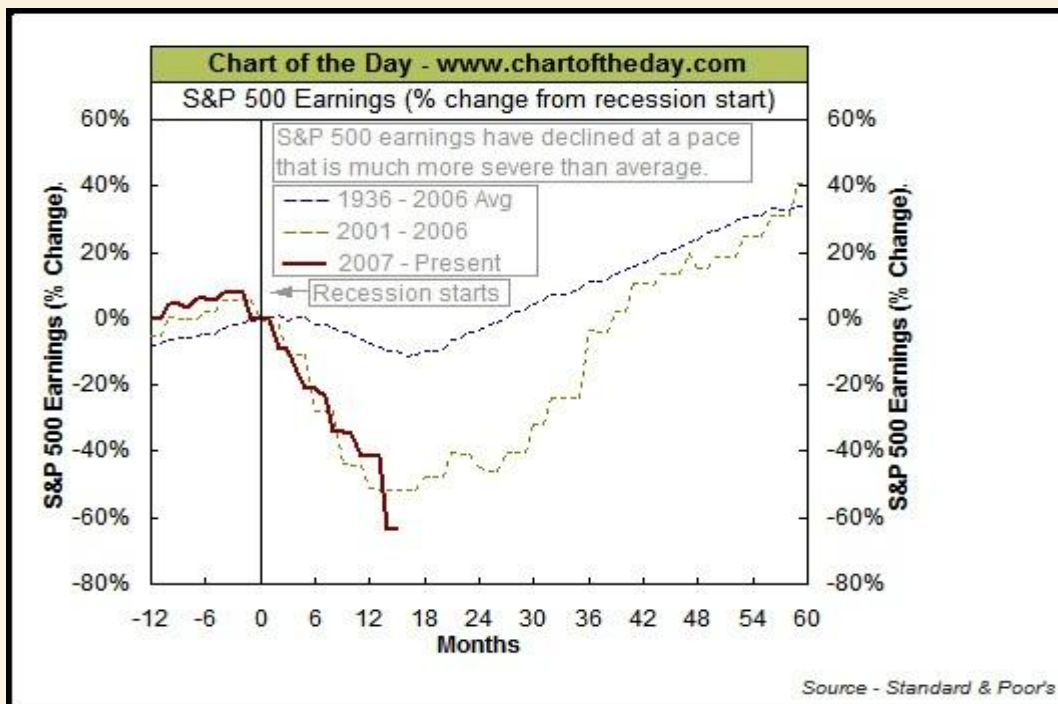
Our mutual fund (KCM Macro Trends) continues to grow both from investment gains and deposits from new investors and clients. It is open only to our clients and Institutional investors. For more information visit our website at www.kernscapital.com.



Will The Rally Continue?

Anyone who has been around for a few decades has been through several recessions. They come along every few years. For those that don't lose their jobs, or have significant investments (which usually decline) a recession may not amount to any more than a news item.

However, the current recession is virtually impossible to miss. The decline in the economy has been severe. The chart below shows how the current recession compares with the average of prior recessions. Only the great depression of the late 1920's and early 1930's has been worse.



In the Financial Times this morning there was an article that talked about the world's billionaires. It stated that \$1,400bn (that's 1.4 trillion) of billionaire wealth disappeared worldwide last year. I think it's safe to assume these billionaires can "still put food on the table" - but you can bet they're also feeling the pain of world economic downturn.

I did some research on performance of equity mutual funds and found that of all the thousands of

mutual funds in the world, there were only five that had a positive return in 2008. It was truly hard to make money last year!

One thing is certain, many people, billionaire or not, have had their investments severely diminished. The typical story we hear from people coming to see us is a 40% to 60% decline. I am glad to say that our clients had minor declines by comparison and that the gains we have experienced over the last few weeks has actually pulled our models up nicely.

Looking back over the last year from last night's market close, the S&P 500 is still down almost 35% (even after adding back dividends). Thus, the typical "Buy-and-Hold" equity investor will have to earn over 50% on their remaining money just to get back to where they were a year ago.

Our risk management approach to investing has almost entirely reclaimed the much smaller portfolio losses we incurred last year.

I feel strongly that the market will end 2009 higher. However, strong rallies like we just experienced cannot continue indefinitely without becoming exhausted. There will be some pull backs. History shows however that for the long-term, equities are the only way to grow your money significantly faster than the inflation rate. The object is to manage risk in a way that avoids severe losses while capturing most of the good times.

As you could tell from the chart in section one above, we are having a great year. Only three-and-a-half months into the year and we are up almost nine percent.

If you participated in the nationwide Tax Tea Party today, you have my complete support. Just don't forget - your extension is due by midnight.

Lane Kerns

Website

We take pride in providing a high level of personal service. We continually work to earn your trust by investing in tools and resources that strengthen our relationship with you. I'm pleased to announce our latest service - our firm's new Web site. We hope you like it. Please give us your feedback. Now you can visit www.KernsCapital.com to view your Schwab Account, as well as your 401(k) Account if our sister company M.L. Kerns & Associates administers your company's 401(k) plan.

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