



K E R N S

CAPITAL MANAGEMENT, INC.

Kerns Capital Management Market Report

May 1, 2009

Dear Clients and Friends,

I'm pinch-hitting for Lane today who is away on a short vacation attending his 50 year high school reunion in Central Kansas. I'm sure he'll have a story or two to share with us when he returns.

In the meantime, I've got great news to report!

The markets had a great April and so did we. All of our models were up significantly for the month. I've included a few performance charts below.

In this edition I will share with you an article from yesterday's Financial Times advocating the inclusion of active portfolio management.

I will also discuss the difference in performance between our models discussed in these newsletters (which I will call our "traditional models") and our 401(k) models.

Marty Kerns



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How Are We Doing?

We're having a great year. All of our models were up again in April. Aggressive was up 8.75%, Moderate 6.09%, and Conservative 5.23%. The S&P 500 also rallied this month, but is still negative for the year due to heavy market losses in the first quarter.



Buy-and-Hold ... Don't Get Left Behind

Buy low and sell high, hopefully much higher. The formula for making lots of money.

Unfortunately, Murphy's Law suggests that most investors will do the opposite. This outcome is particularly common to the buy-and-hold investor who, after watching his account fall and continue to fall, finally throws in the towel, only to see the market reverse direction and rally with him on the sideline.

In yesterday's Financial Times (pg 22) there was a very interesting article entitled "*Buy-and-hold investors could find themselves left behind*" wherein the writer makes the case for including active investment strategies, like ours. If you've been reading our newsletter for very long you'll find the following excerpts familiar in message and prophetic.

"The destruction of more than 12 years' worth of investment gains during a painful 18-month period calls into question the once unassailable investment precept of 'buy and hold'. With the economy showing no significant signs of rebound, it could take a long time of buying and holding to make an investor whole again.

Witness Japan where the stock market is still, 20 years later, crawling out of its own economy - induces malaise with share prices less than 25 percent of their highs. Similarly, it took 25 years for US investors to erase losses [break-even] suffered during the Great Depression.

[My comment: To put today's events in perspective, the S&P 500 was down about 57% from its October 2007 high through its March 9, 2009 low. An investor who took this ride will need to earn a return of about 130% on his remaining account just to get back to break-even ... and he's still left needing to make up for inflation.]

Set against that history and today's market realities, I believe buy and hold should be reconsidered and re-analyzed. Portfolio construction should include more than buy-and-hold strategies. In fact, for many investors, a portfolio weighted toward active trading strategies could result in safer, more liquid, more diversified and less correlated investment approaches, especially when viewed on a risk-adjusted basis.

... what if portfolio construction started with the view that today a portfolio should be nimble and actively managed so that it can quickly respond to and take advantage of current opportunities in the market place rather than slog through the ups and downs hoping to end with an up?

... Active trading strategies generally outperform in volatile markets. Not only have the markets experienced unprecedented volatility during the past two years, but it also appears they may have fundamentally changed from those of a decade ago when volatility was relatively low and thus buy and hold made more sense.

Those who can achieve success in the new markets are active and professional, they trade for a living and enter and exit positions quickly, based on traditional and, often, non-traditional analyses." (emphasis ours)

As the saying goes, "the proof is in the pudding." Since 2000, as shown in the chart below, our actively managed Aggressive and Conservative models have outperformed the S&P 500 by 82.15% and 76.07%, respectively.



401(k) Model Performance

Our 401(k) models were also up in April.

Last year our 401(k) models outperformed our traditional models (the models we report performance for in newsletters). This year our traditional models have thus far outperformed our 401(k) models. Not surprisingly, no one asked about the difference last year. Understandably, people are asking this year.

Due to rules unique to 401(k) plans, performance between our traditional and 401(k) models will almost always differ. Sometimes the rules help, sometimes they hurt. Our management philosophy is the same.

We report 401(k) model performance monthly via an Investment Performance Summary (IPS). The IPS is unique to each 401(k) plan and is distributed mid-month to the employer after we have collected data for all of the investment options available to the plan. Most of this data comes from Morningstar, Inc., an independent research and reporting services, which sends data to us around the 10th. The employer then posts or distributes the IPS to participants. Check with your employer for this report.

KCM Macro Trends Fund

Our mutual fund - [KCM Macro Trends Fund](#) (KCMTX) - continues to grow both from investment

gains and deposits from clients and new investors. The fund is an outgrowth of our models and management strategies and is a significant holding in our model portfolios.

It is open only to our Clients, Advisors and Institutional Investors. It is available through Charles Schwab, TD Ameritrade, Pershing, Southwest Securities and, within the next few weeks, Fidelity. For more information go to our website www.KernsCapital.com

In Closing

We continue to feel strongly that the market will end 2009 higher. However, strong rallies like the one we've experienced over the last several weeks cannot continue indefinitely. There will be some pull backs. History shows, however, that for the long-run 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 and captures a majority of the gains ... and stay in the game.

Have a great weekend.

Marty Kerns

Website

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.

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. 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.