



K E R N S

CAPITAL MANAGEMENT, INC.

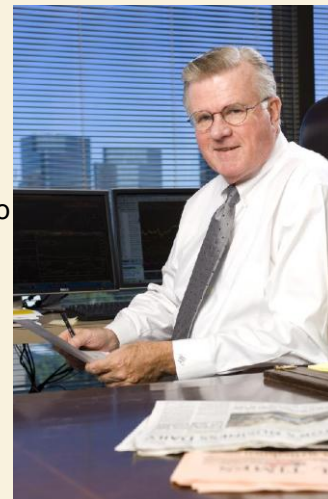
Kerns Capital Management Market Report

June 1, 2009

Dear Clients and Friends,

May ended with a surge and the S&P ended its third straight positive month. The market's resilience is a major positive as many investors who have kept money on the sidelines continue to buy into it on weakness. Money flowing into the markets should continue to push the market higher.

While there are still many problems in the economy and many more that will probably occur as unintended consequences from the solutions being applied, I am mildly optimistic about the prospects for a strong year.



IN THIS ISSUE

[Perspective](#)

[How Are We Doing?](#)

[KCM Macro Trends Fund](#)

[In Closing](#)

[Website](#)

Perspective

When I talk with people, the question always comes up - "Where do you think the market is going?" For the last three months, I have been saying that I think we will finish the year higher than we are now. Little did I know that three months ago, we were entering a terrific rally!

I know you get tired of hearing me repeat it, but those people who "Buy-and-hold" investors - have had one of two things happen to them:

1. They stayed invested throughout this latest bear market, and lost the majority of their portfolio - even after the rally we are currently experiencing.
2. They did what most "Buy-and-hope" investors do, they got cold feet and bailed out of the market because they could not stand any more losses and have missed the rally.

That is an idea from the 50's held by some who don't seem to understand that people do not like to

lose their financial security and their 401(k) plans. From its high on October 9, 2007 until March 6, 2009, the S&P 500 declined 56.78% (even after adding back dividends).

That means that people who stayed invested in an S&P 500 Index Fund only had 43.22% of their portfolio remaining on the evening of March 6th! In order to just get back to their October 9th, 2007 balance, the market will have to go up 131% for them to break even. That probably won't happen in this decade.

Good News

We are in a strong rally! I know that it has not felt like it during part of May but look at the following chart.



The two Red lines represent a trading channel. That channel has been in a strong rally since the March 6th market bottom (marked as (1) on the chart). **Between the numbers (1) and (2) on the chart is a dashed green line which represents a 42.14% rally!**

At point (3) on the chart, I have marked a "Double Top". This is a point where the market tried to go higher and could not. To most of us technical traders, this is not a good sign. It is a time to be very cautious and we did just that. Between point (3) and point (4), the market declined 4.55% which in perspective was not a lot. However, at the time, it certainly did not feel good to a very cautious investing public. It has since rallied back into the up-trending channel and feels very strong again.

The point of this section is to keep things in perspective. If the market enters a strong downtrend, apply some risk-management and take evasive action. When the market enters a strong uptrend, be aware of it and stay invested!

How Are We Doing?

Our investment strategy is working wonderfully in this market environment. Our drawdowns have been minimal compared to the market and we have participated in the uptrend that started March 9th. The combination of low drawdowns (due to our risk-management) combined with capturing the

majority of the uptrend have produced a good return for the year.

Below is a chart of our Conservative and Aggressive model performance compared to the S&P 500 (with dividends) over the last six months.

Additionally, the S&P 500 was up 2.56% today and our Aggressive model was up even more - (Not included on the chart). It is interesting that the S&P was up as much today as it was in the prior six months.



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

Treasury Bonds, which were so hot during the last quarter of 2008 are down 6.50% during this six month period according to the Shearson Treasury Bond Index.

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's assets have grown

The fund is open exclusively to our Clients, Advisors and Institutional Investors. It is available through Charles Schwab, TD Ameritrade, Pershing, Southwest Securities and soon at Fidelity. Our Aggressive Model is invested 100% in KCMTX.

For more information go to www.KernsCapital.com

In Closing

I realize more than ever that while it comes dressed in a different costume, the market just continues to repeat itself over the decades and we as investors do the same.

The following quote from Reminiscences of a Stock Operator originally published in 1923 still rings true.

"Nowhere does history indulge in repetitions so often and so uniformly as in Wall Street. When you read contemporary accounts of booms and panics the one thing that strikes you most forcibly is how little either stock speculation or stock speculators differ from yesterday. The game does not change and neither does human nature."

While I do not consider what we do to be speculation, the points made are good ones.

Looking forward to a good year,

Lane 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.