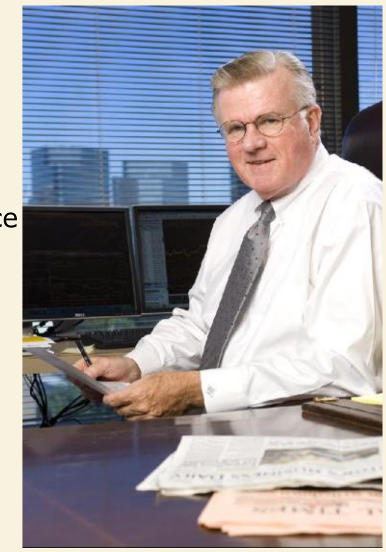
KERNS CAPITAL MANAGEMENT, INC.

Kerns Capital Management Market Report **July 1, 2009**



Dear Clients and Friends,

The quarter ended yesterday and Global Stocks finished their best quarterly performance in more than 20 years!

The FTSE All-World Developed Market Index had its strongest performance since 1987. This all occurred with a sharp rally from March lows powered by hopes of an economic recovery. (More on the outlook below.)

Included in the strong quarterly rally was a change during the last month from a strong rally to a sideways market. (See our performance chart below.)

There is an old saying that "The Market climbs a wall of worry". Seldom are we in a position where all of the stop-lights between here and our destination flash green at the same time. This year is no exception and we will have some pauses on our journey.

Our KCM models continue to lead the major US indexes for the year.

IN THIS ISSUE

Market Direction

As I have pointed out many times in the past, the stock market and the economy do not move at the same time. A recovery in the economy is always preceded by several months with a recovery in the stock market.

Since a market recovery always precedes an economic recovery, it goes without saying that money can be made in the stock market long before all of the bad economic news goes away. As a matter of fact, the best gains start to occur while economic news is at its worst.

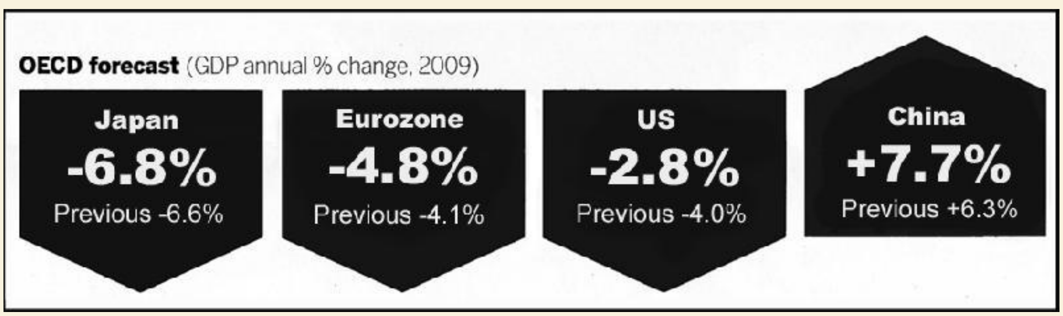
The market has a way of sensing a turn in different sectors of the economy as they are starting to occur, whereas the economic reports for the economy always follow the period in which the improvements occur.

Let's take a look at the current signals and see what the "tea leaves" are telling us about the direction of the market. In news over the last few days, those looking for truly positive news had nothing to hang on to. Economic activity is still very weak. Your interpretation will depend upon your degree of optimism or pessimism.

Optimists could point to the S&P Case-Shiller index of US home prices, which is falling at a much slower rate since the housing slump began; the Chicago and Milwaukee purchasing manager's surveys in the US showing further recovery in US economic activity; the UK's Nationwide house price index, showing prices actually rising for a second month; and in Japan a purchasing managers survey showing export orders and output expanding, while consumer spending rose for the first time in 16 months.

Meanwhile, pessimists could point to: the first ever month of eurozone-wide deflation; a fall in US consumer confidence brought on by rising oil prices and mortgage rates; the worst percentage fall in UK gross domestic product ever; and rising Japanese unemployment.

What we are looking for is not just a US recovery but a global recovery because we need other economies healthy enough to buy our exported products. The chart below indicates that while still depressed, the US and China are projecting improvements in Gross Domestic Product - a sign that they may have bottomed!

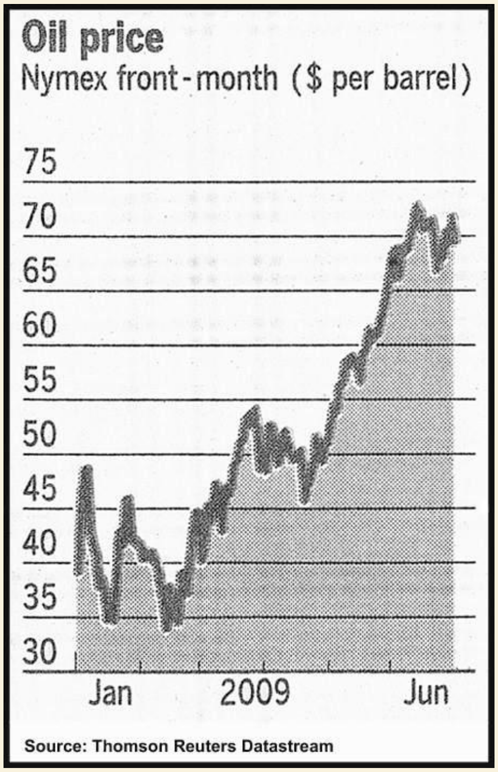


While the pessimists look at rising oil prices and mortgage rates as negatives that will slow the recovery, they are signs of a recovery!

Oil prices have risen from under $35.00 per barrel earlier this year to over $70.00. They are becoming a concern because they take money out of consumer's pockets that could be used to purchase other goods. The same price increases have occurred with many other commodities as China has stepped up purchases.

For investors, this is all very good news. A global recovery will raise demand for raw materials to produce manufactured goods, increasing profits of oil and mining companies in which we invest.

According to the Financial Times, the largest growth in oil and other commodity demand has not



occurred in developed countries - but rather in undeveloped emerging market countries. This is a very good sign that these countries are recovering and will provide markets for our products.

On balance, I fall in the optimistic camp. Based upon our work and analysis, our group feels strongly that the market will be higher at year end. Those fund managers and investors that did not participate in the strong rally of the last quarter will not want to be left behind and will want to get invested, which will drive the market even higher.

While there has been a strong reversal from outflows to inflows of money going into equity mutual funds, this increase of investments is just in its beginning stages. Huge amounts of money will be coming into the market creating buying pressure.

Having put a positive spin on our outlook, I must remind readers that it will not be a straight line upward. But, if you have a risk-management plan you should not be afraid to commit funds.

Everything is happening as it should for a global economic recovery to occur. By this, I do not mean that all our employment, housing and economic problems are solved. What I do mean is that the steps to recovery are occurring as they always do.

In the next section, our chart will show that the market has entered a trading range (sideways) market.

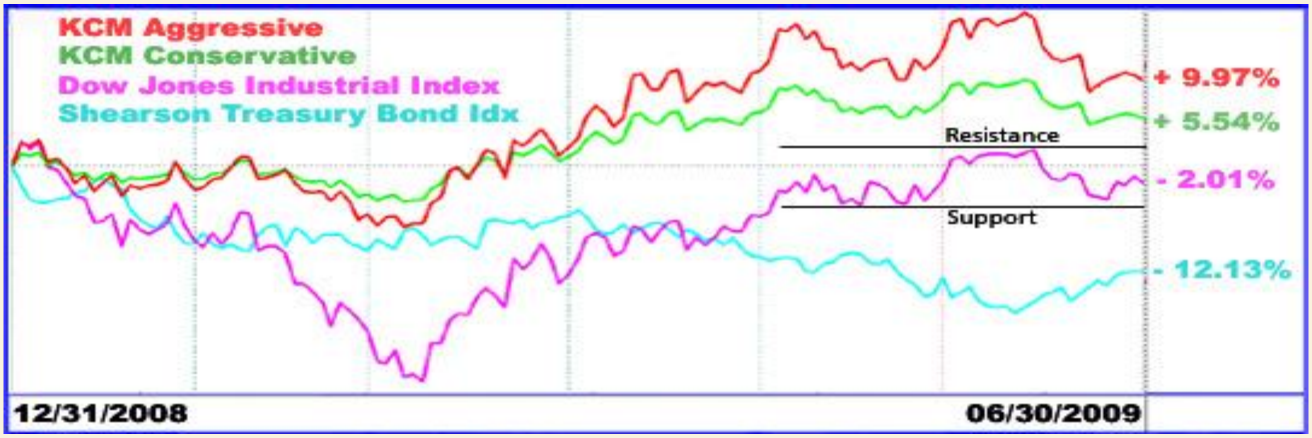
How Are We Doing?

Below is a chart showing our Aggressive and Conservative Models compared to the Dow Jones Industrial Index (including dividends) and the Shearson Treasury Bond Index for the first half of 2009. We are outperforming the Dow and the Treasury Bond Index which are still negative for the year. The two things on the chart I would like to emphasize are:

1. Treasury Bonds, which were so hot during the last quarter of 2008, are down 12.13% year to date according to the Shearson Treasury Bond Index. This is because interest rates are rising which forces bond prices down. While the Fed is manipulating interest rates to keep them low in order to aid the economic recovery with what they are calling "Quantitative easing", rates are rising and in our opinion, will continue to do so. This makes treasury bonds a poor investment.

2. You will notice two black lines on the chart labeled Support and Resistance. These are the top and bottom of the trading range that the market has entered. A break above the resistance line will indicate a continuance of the rally that began in March. Falling below support will be negative and will delay the bull market. The market **WILL** do one or the other this summer. If you have a risk management plan in place, you need not fear the latter.

KCM VS. THE MARKET (Six Months)



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

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 more than $20 million since the first of the year.

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

For more information go to www.KernsCapital.com

In Closing

As we enter the July 4th weekend, we are all reminded once again why this country was founded. I think it is much too easy to forget that most of the rest of the world's population does not have what we have. Appreciate it, support it and do not take it as a privilege or it will slip away from us.

What a blessing we have - but it did not come without sacrifice and will not be maintained without American's remembering where we came from and what we stand for. All of our clients have personal wealth for us to manage because they have taken personal responsibility for their own financial security by saving and investing. Personal responsibility has made America strong.

Have a great holiday!

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.

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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.