MLK CAPITAL MANAGEMENT, INC.

ADVICE ON THE MARKET

February 1, 2007

To: Friends and Clients of MLK Capital Management
From: Lane Kerns

Re: A Great Start On The New Year
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A Great Start On The New Year

All our non-401(k) equity models have beaten all of the major indexes (Dow, S&P 500, Nasdaq and Russell 2000 for January and for the last three months. All but Conservative which is managed for lower risk) have outperformed all the major indexes for the last four months.

During January, our equity models were double to triple the performance of the S&P 500! This adds to our superior long-term performance record. (See the performance chart below.)

Our New Mutual Fund

DXMTX became active on January 10th and money began to flow into it within a few days. As of last night the fund had about $29,000,000 in it and we have not yet begun to transfer any assets held at Schwab.

We are very excited about getting the new fund off the ground. It will hopefully be added to the Schwab (and other) platforms very quickly. This will not only act to reduce management fees to our clients but will give us much greater trading flexibility – which should enhance performance as time progresses.

For those of you who are clients, you will be receiving a letter and a new fee agreement in the next couple of weeks. The essence of the new fee agreement will be to reduce the fee you pay us by the amount we receive out of the mutual fund management fee. In some cases, for larger accounts where all of a clients account is in the fund, our management fee will go to zero and our sole compensation will be out of the mutual fund management fees. We will not move any client accounts to the fund until your new agreements are signed and returned - however, it should clearly be to your advantage to do so.

In the past clients have paid our fee and also the management fees of the mutual funds we invested in. This has presented an overall fee level that was higher - but justified by the inherent advantages of mutual fund diversification and the fact that our performance after all fees has greatly exceeded index fund investing. Now those expenses will be reduced by the fact that we are managing our own fund.

Market Outlook

Although it is always a good sign when a new year starts out with January market performance being up – I would say that there is both good news and bad news in the air.

Good News – Yesterday the Fed did what everyone expected when they left interest rates unchanged. What was not expected were a couple of things that offered the markets reassurance on the outlook for US growth and inflation. The Central Bank said recent indicators had suggested "somewhat" firmer economic growth and that tentative signs of stabilization had appeared in the housing market. Additionally, reading of core inflation had improved moderately in recent months.

The term "somewhat firmer economic growth" is a very big deal since a few months ago many economists were predicting a US recession. All this good news was confirmed by the release of an announcement that the US economy grew at an annualized 3.5% in the fourth quarter. This was substantially higher than the consensus forecasts of 2% and very reassuring to investors that corporate profits should continue to grow, people should remain employed and personal incomes should continue to improve. The only downside to stronger growth is that it suggests energy demand may rise. (Interpret that to mean gas prices will remain high and could go back up.)

Core inflation improving moderately is Fed talk for – we are not going to have to raise interest rates. That is also very good for the stock markets. Overall, the Fed is patting themselves on the back. Basically, the economic picture is unfolding exactly the way they wanted.

Bad News – The following is a direct quote from this morning's Financial Times. "Stock markets often have an instinctive need for catharsis. Long uninterrupted market runs inevitably invite speculation about how much more they can be sustained. A correction is often needed to clear the doubts before the run continues."

"The US equity market is now looking deep in overdue territory for such a move. [Yesterday,] the Dow Jones Industrial average … passed its 137th trading day since July 17 without a correction of 2 percent or more, according to Ned Davis Research. That is the second longest stretch on record after a run between September 1953 and June 1954. And the Dow has gone 53 months without a correction of 10 percent or more."

Even though we had a terrific performance month for January, the Dow had its weakest month since last July.

"Another signal is also not so bullish – the ratio of the market's price-earnings multiple to its earnings growth rate." "At the macro level, Absolute Strategy Research points out that the Peg ratio at extreme levels has had a good track record in signaling market shifts. … The peg ratio for the US market is now at 1.83 times."

"Since 1988, there have been 11 occasions when the ratio has risen as high or more. Each time the market has fallen subsequently over six and twelve months. The average fall over six months has been 8 percent. Over a year the average fall was 12.88 percent."

Our Outlook – All of the above said, I know I am sounding more bearish than I feel. I am merely skeptical. Since our crystal ball is never quite clear, and we get paid to protect and grow people's money, we have to manage our optimism as well as our pessimism. The facts are that the world economic outlook is truly different than we have ever seen it before. I do not remember any time when there was no major country's economy faltering and when the amount of world liquidity was so high. (See a January 2nd 2007 WSJ article entitled Investors Riding The "Cash" Rapids for more on a world awash in cash and market volatility being exceedingly low.) This has combined to reduce risk premiums in the market to their lowest levels I am aware of. That means that nowhere in the world is any country or market fearful of major market problems or defaults.

I know that the contrarian view would be to run from the crowd. However, we have traditionally made more money following trends – not fighting them. Two good rules are "Don't Fight the Fed" and "Don't Fight the Trend". Neither is displaying any indication of a major market downturn.

We constantly drive with our foot over the brake pedal in the event of a market accident. But until we see one the prudent thing to do is take advantage of the uptrend, while – as when driving – paying attention to what is happening around us. As our clients know, we have the ability to trade very quickly to react to trend changes. We also have more precise and cost effective hedging techniques than we have ever had.

Managed Account Performance Verses Market Indices

	PERFORMANCE						RISK[2]	
PERIOD ENDING 01/31/07	One Month	Last 3 Months	Last 4 Months	3 Years Annualized	5 Years Annualized	Since 12/31/00 Annualized	3 Yr. Standard	5 Yr. Deviation
Equity								
Dow Jones Industrials	1.47%	5.04%	8.86%	8.83%	7.33%	4.93%	7.27%	12.58%
NASDAQ	2.01%	4.10%	9.09%	6.32%	5.13%	0.09%	13.04%	18.86%
S & P 500	1.54%	4.80%	8.27%	10.39%	6.86%	3.23%	6.85%	12.35%
MLK Conservative - 401(k) Plans	-1.30%	8.10%	8.26%	12.17%	13.33%	10.09%	9.10%	8.26%
MLK Conservative Growth	2.97%	6.54%	7.58%	11.66%	13.03%	9.87%	9.28%	8.32%
MLK Cons. Growth Margin	3.00%	5.79%	6.86%	9.13%	N/A	N/A	12.32%	N/A
MLK Moderate - 401(k) Plans	2.22%	7.32%	8.58%	13.43%	13.16%	9.55%	10.66%	9.92%
MLK Moderate Growth	4.10%	6.92%	9.94%	12.40%	12.54%	9.05%	11.53%	10.49%
MLK Moderate Growth Margin	4.18%	6.69%	9.64%	12.80%	N/A	N/A	12.73%	N/A
MLK Aggressive - 401(k) Plans	5.34%	9.08%	10.91%	19.16%	15.43%	11.92%	11.47%	10.47%
MLK Aggressive Growth	4.82%	7.83%	13.21%	15.58%	13.34%	10.23%	11.88%	10.90%
MLK Aggressive Growth Margin	4.60%	5.91%	11.19%	14.12%	N/A	N/A	14.86%	N/A
INCOME								
LB 1-3 Yr. Govt. Bond	0.20%	-0.52%	-0.32%	1.41%	2.44%	2.99%	1.22%	1.54%
3 Month T-bill	0.38%	1.27%	1.65%	3.37%	2.55%	2.54%	0.43%	0.44%
MLK Stable Value (Non-401(k))	-0.35%	4.20%	4.74%	6.35%	5.71%	5.05%	3.02%	3.02%
MLK Stable Value 401(k)	0.30%	1.26%	2.07%	5.89%	5.44%	4.82%	3.23%	2.92%

The above fund performance information is historical in nature and is not a guarantee of future performance. Actual performance will be different and may be less. Losses could occur in all funds. Time periods may reflect a trend in rising or falling stock prices which may not be sustained in the future. MLK Capital Management, Inc. ("MLK") performance figures are after the deduction of MLK's actual management fee and include reinvestment of dividends and earnings on accounts held at Charles Schwab & Co., Inc. MLK performance figures represent a composite of all individual portfolios managed in accordance with each investment category. [1] Standard Deviation is a measurement of risk and smaller numbers indicate less volatility or risk.

Current Portfolio Holdings

We are currently fully invested and un-hedged to take advantage of the current uptrend. In DXMTX, we are using the same processes we use in our models with the additional advantage that we can short individual stocks or market sectors more efficiently.

Tip - As you do your taxes, you may notice that the Schwab tax information is very difficult for your accountant to decipher. Please e-mail Keyla@MLKerns.com or James@MLKerns.com for a summary of long & short-term gains/losses and interest earnings. Don't forget to deduct our management fees and any margin interest expenses.

During the first quarter, we will be introducing a new website for MLK Capital Management, Inc. When it comes up it will be MLKCapital.com. Clients will be able to retrieve personal account information that is not available at Schwab. Users will be able to aggregate all of their financial assets, bank accounts loans – regardless of where held - in a secure and private (even from us) site. It will have extensive references and links to retirement issues and we invite people to forward to us a link or a copy of anything they read that they feel is of value in building and planning for retirement wealth. Also send articles on any retirement related issues such as health, insurance, retirement homes and travel. It is our goal to have the most comprehensive "go to" spot on the web for retirement topics.

We are constantly gratified by the quality and dedication of our staff. If you have a good experience let us know so we can reward them.

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401(k) Investment Advice

If you are managing your own money, **www.401k-Investment-Advice.com** would have told you that it was time to become more aggressive or when to go to more conservative holdings - also what funds to buy. It gives you a view of Current Market conditions by going to "Current Market Conditions". It gives users the tools that we use in managing client portfolios. Check it out. Once you log in, go to Investment Advice – Actively Manage. Or, if you prefer not to do it yourself, we can manage your account for you. If your company does not sponsor it, or you are not a member, contact us at MLKCM@MLKerns.com. If we do not already do so, we can manage your 401(k) account – as well as your personal and IRA investments.

MLK Capital Management, Inc. is a fee based investment advisor. Our income can not grow unless our assets under management grow. We do not make money by trading client's accounts. When we make a trade, it is to keep the account from losing money or to put it in a position to grow more. The success of our firm is tied to the success of our client's investment accounts.

This letter is published periodically with my views on the market, investing and things that seem important to me at the time. Remember, all of this is filtered through 40 plus years of experience including a fair amount of both "Good Judgment" and "Bad Judgment". Or, as a friend of mine says, we may not be right - but this is our opinion. Please feel free to share this with anyone you think might be interested. If someone would like to be put on the list just send me an email with his or her email address. You can reach me at:

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