

MLK CAPITAL
MANAGEMENT, INC.

ADVICE ON THE MARKET



April 2, 2007

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

Re: Health of the Market and the Economy
Roller Coaster Ride
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Health of the Market and the Economy

World stock markets retreated last week against a backdrop of rising oil prices and fresh uncertainty about the outlook for US growth. Oil prices reached their highest levels for six months as tensions in the Middle East heightened. A series of small shocks about the housing market did not help.

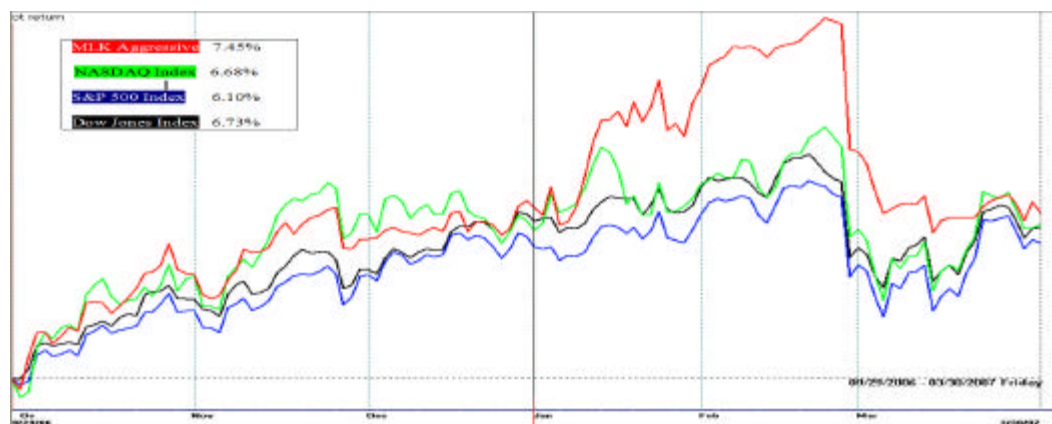
However, after each shock, the markets showed a degree of resilience! A pattern of recovering from shocks may speak to the fact that the market wants to go up. Interest rates are just too low and liquidity is just too high to take the market down. Economic growth for the final quarter of last year was revised up and jobless claims were lower than expected last week. In addition, consumer spending and income rose at almost double the forecast rate.

The global economy could probably withstand a US slowdown if it comes. Stock market valuations are still reasonable. It just doesn't look like a bear market is staring us in the face. Having said that, we are not willing to bet the ranch that we are right. In a situation like this, a bullish or a bearish case can be made, depending on the outlook of the person making it. The reality is that this is an indecisive market that will eventually break one way or the other, depending on the developing economic situation.

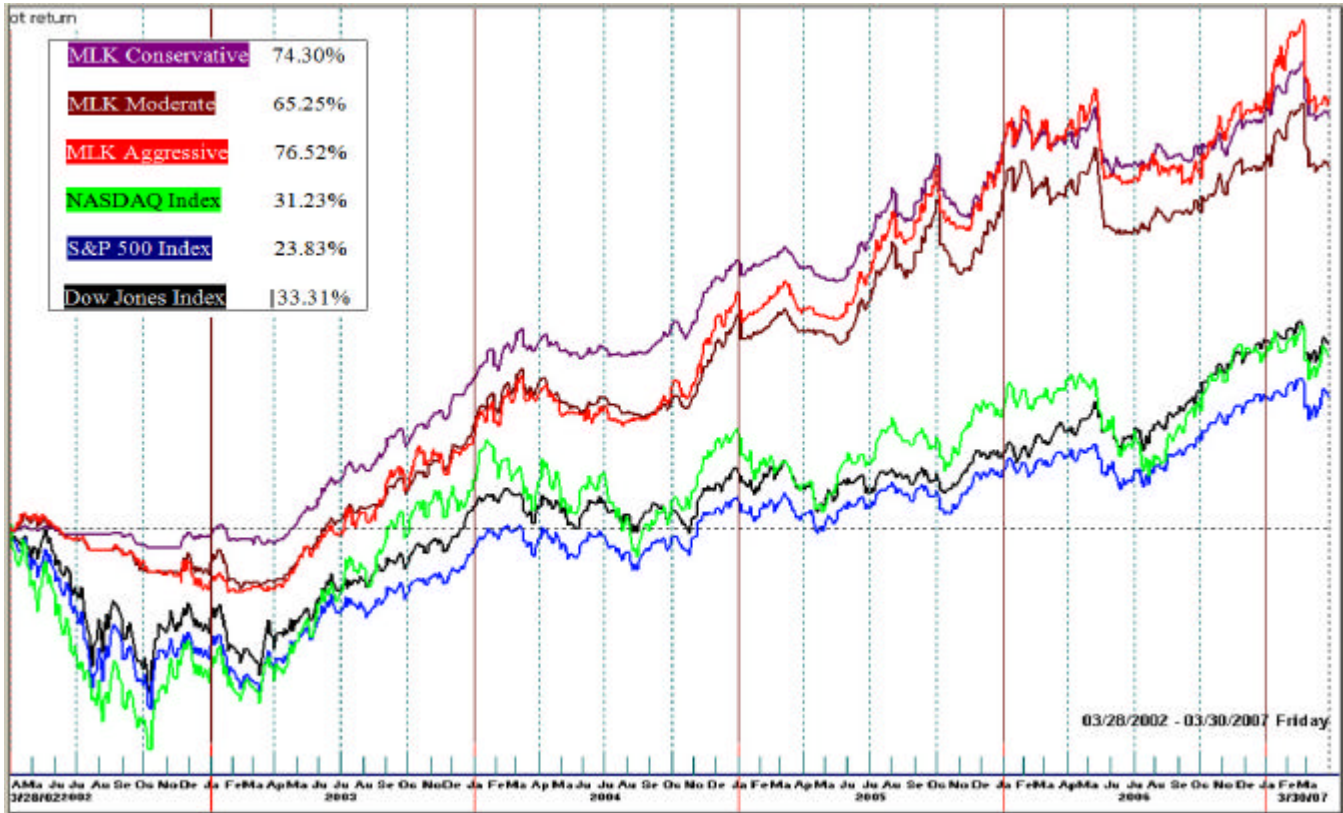
Roller Coaster Ride

"The stock market took investors for a roller coaster ride in the first quarter, leaving them a bit shaky about what is to come. Few stock market predictions came true. Blue Chip shares again lagged behind small stocks, despite expectations that big name stocks would prosper as safer bets in a slow-growth economy." WSJ

The following chart shows performance for the last two quarters and shows our aggressive account compared to the Dow, S&P 500 and the Nasdaq. As you can see, Aggressive is slightly ahead of the other indexes with a total return of 7.45%. (that is an annualized rate of 15.58%.)



The next chart shows all of our non-401(k) equity models over the last five years. They have all significantly outperformed the major indexes.



The point in showing the above charts is that in order to expose yourself to the opportunity to take advantage of the superior growth that the stock market offers (which allows you to beat inflation and grow your portfolio significantly more than bank CD's and Money Market investments), you must expose yourself to some volatility. Notice I said some volatility – not a lot of volatility. Over the last five years, we have had almost as many down months as we have had up months. The key is that the up months have been bigger because we never allow ourselves to take a big hit.

We try to take advantage of those market segments and sectors that have the most momentum. Those can be the ones that have the biggest roller coaster ride. We control that ride with risk management. We use stop losses so that none of the accounts can suffer a large loss. We also use hedging from time to time. Both of these methods have cost us performance. The five year returns would have been much better if we used no risk management. That is very clear in hind-sight. The problem is that it is much harder to see forward than it is to see backward so we just don't take the chance of getting hit with big losses.

When our system says take precautions, we take precautions. We do this full well knowing that we may be selling exactly the day before the market turns up. But we learned the hard way back in 2000 that when the big hit comes – we will be happy that we were cautious. In spite of leaving a lot of gains on the table, the results for our clients have been very rewarding. From the five year chart you can see that all our equity models have had returns roughly double all three of the major indexes.

Follow Up On The Carry Trade

The severe fall in world markets last May and the tumble at the end of February this year were a result of the rapid unwinding of the Carry-Trade. This year was not as bad because the markets found a balance beyond which they could maintain the borrowings (or short Yen positions). I have repeatedly said that unwinding will occur when the Yen strengthens to the point the carry is no longer profitable. That level was only partially reached in February. There seemed to be a level beyond which the Yen could not strengthen in the current economic environment. That level was 115 Yen to the dollar.

It appears that the economic situation in Japan has now made it almost impossible in the short run for the Yen to strengthen beyond that point. Therefore, the Carry-Trade is still profitable and world liquidity will not be threatened for a while. However, when it rears its head in the future, we need to pay attention.

Managed Account Performance Verses Market Indices

PERIOD ENDING 3/31/07	PERFORMANCE						RISK	
	One Month	Last 3 Months	Last 6 Months	3 Years Annualized	5 Years Annualized	Since 12/31/00 Annualized	3 Yr. Standard	5 Yr. Deviation
Equity								
Dow Jones Industrials	0.92%	-0.35%	6.91%	8.50%	5.86%	4.43%	7.35%	12.59%
NASDAQ	0.23%	0.26%	7.22%	6.97%	5.75%	-0.19%	12.98%	18.02%
S & P 500	1.17%	0.58%	7.25%	10.10%	6.29%	2.95%	6.92%	12.27%
MLK Conservative - 401(k) Plans	-1.34%	-3.59%	4.22%	10.04%	11.89%	9.25%	9.14%	8.32%
MLK Conservative Growth	-1.82%	-0.55%	3.91%	9.13%	11.33%	8.82%	9.41%	8.50%
MLK Cons. Growth Margin	-1.90%	-0.67%	3.05%	9.71%	N/A	N/A	11.12%	N/A
MLK Moderate - 401(k) Plans	-2.80%	-2.11%	5.05%	10.40%	11.07%	8.40%	10.86%	9.95%
MLK Moderate Growth	-2.25%	-0.34%	5.26%	9.39%	10.46%	7.92%	11.69%	10.50%
MLK Moderate Growth Margin	-2.28%	-0.33%	4.89%	9.63%	N/A	N/A	14.09%	N/A
MLK Aggressive - 401(k) Plans	-3.13%	-0.24%	8.81%	14.99%	13.28%	10.45%	11.43%	10.64%
MLK Aggressive Growth	-2.72%	-0.74%	7.20%	11.53%	11.22%	8.85%	12.07%	11.04%
MLK Aggressive Growth Margin	-2.75%	-1.01%	5.22%	9.52%	N/A	N/A	14.71%	N/A
INCOME								
LB 1-3 Yr. Govt. Bond	0.05%	0.67%	0.15%	1.28%	2.58%	2.95%	1.20%	1.46%
3 Month T-bill	0.47%	1.29%	2.57%	3.62%	2.67%	2.59%	0.41%	0.46%
MLK Stable Value (Non-401(k))	0.62%	0.45%	4.67%	6.64%	5.38%	4.98%	3.37%	2.98%
MLK Stable Value 401(k)	0.49%	1.28%	3.06%	6.24%	5.14%	4.79%	3.20%	2.88%

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 slightly under 100% invested until we get a clear market direction. Again, this may be a move that is to conservative, but we would rather err on the safe side rather than present you with a big draw down in your account.

Our holdings are all sectors that have shown better relative strength than the markets as a whole. They have performed better in both up and down markets over the last few weeks.

Billie and I took a couple of days last week to conduct a Due-Dilligence meeting with a mutual fund family where we have had significant holdings. ProFunds invited us to a small group meeting in Bethesda Maryland of their top money managers. We felt fortunate to be included in that group. We then spent the weekend and Monday in Asheville, NC. A delightful place with delightful people and weather.

Don't forget to take time for self and family. We all need a little spice in our life.

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DATED MATERIAL

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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