



MLK Capital Management, Inc.

Mid-Month Market Report

Monday - April 16, 2007

What is Happening in the Market?

This has been a very good month so far. All our Schwab equity models are up nicely from about 2.10% to 2.90%!

The market entered the month apprehensive about this quarter's earnings reports. It was originally estimated that after 14 straight quarters of greater than 10% earnings growth that growth would fall to the 3% average range.

That does not appear to be happening. The early news has been upbeat. With 34 members of the S&P 500 so far through Friday, 65% had surpassed analyst expectations, and they are coming in ahead by an average margin of more than six percentage points, according to Reuters.

Investor expectations had fallen enough that those kind of profit gains seem to satisfy them. Combine those gains with the friendly inflation report we got on Friday and the market senses a gradual recovery in the economy even if the housing market is hurting economic growth and consumer spending.

Friday's Wall Street Journal said "The S&P 500 is just seven points from its six-year high hit on Feb. 20, although it remains some distance from its March 2000 record finish of 1527.46." When dividends are added in over the last six years, the S&P 500 has returned a total of 17.57% from its 2001 high. Our Aggressive model has returned a total of 92.16% (after all fees) since that time. Conservative is up 78.77% during that time.

The Risk Environment -

An interesting quote in the WSJ this morning is worth noting. "The market is just one bad inflation number away from another sharp decline." My thoughts on that subject are as follows:

1. Last Wednesday's release of the minutes from the last Federal Reserve meeting hinted that the Fed was nowhere near cutting interest rates and that deepened the market sell-off. The quote may have some validity.
2. While the US economy is slowing, it has needed to slow to dampen inflation. Slowing inflation will mean lower

interest rates and that is good for the stock and bond markets.

3. While the US economy is slowing, the world economies are strong giving us a market for our manufactured good, providing high levels of cash to invest in our markets and giving us good investment opportunities overseas.

This week's International Monetary Fund forecast s the global economy to grow at 4.9% even if the US only grows at 2.2%. The view is that the problems in the US sub-prime mortgage market won't spread to the rest of the housing market and even if they do, they won't affect the rest of the world.

5. The market's ability to rebound despite unsettling new indicates that investors remain optimistic about things like consumer spending, and are reluctant to sell stocks.
6. Even though the markets have done fairly well this month there has been an alarming lack of volume. What that means is that large institutional investors are not putting money into the market. When that happens, there is more of a chance for market weakness. Our current conservative stance is partly dictated by this weakness.

Today the market has recovered all of the losses that occurred since the February sell off. If the day finishes with stronger volume than we have been seeing and a new high for the year, (and we do not have a pullback tomorrow) that would be a very bullish sign and we will become more fully invested and aggressive.

Opportunities -

The continuing strength of the US economy, while slower, feeds the strong economic growth of foreign economies and stock markets. As mentioned above the global outlook is extremely strong.

That strength, coupled with the falling dollar makes non-US investments an opportunity. The dollar is significantly lower against almost all major currencies - especially the

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Euro. That has helped our European holdings do very well.

Unfortunately, we have not participated aggressively in the Asian markets, other than Japan. As you may remember, the Chinese market led the selloff in February and while it recovered those losses very quickly, its rate of growth over the last few months appears to be completely unsustainable and we have not wanted to buy in a peak. That caution resulted in a missed opportunity. But there are others.

A Personal Thought

One great thing about being in the investment management business is that one never gets bored. I still put in about 55-60 hours per week and am constantly challenged to do the best job possible. Last week I had one of the best educational experiences I have had in years. After spending last Thursday in an all day class on trading options, I flew to Fort Worth for the annual meeting of AAPTA, the American Association of Professional Technical Analysts. Pound for pound, it was the smartest group of people I have ever been around in one room.

As a professional investor, I have the time and opportunity to focus on investing and - hopefully - my family as well as all of our clients and employees benefit. I think that is a tremendous advantage over the individual part-time investor that does not have the time or the opportunity to do so.

Lane Kerns

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