



# MLK Capital Management, Inc.

## Mid-Month Market Report

*Tuesday - January 16, 2007*

### We Are Off To A Great Start For The Year!

Usually we start this Mid-Month letter with "What is Happening in the Market" - but let's get the good news out of the way first! **Our models are all up for the month and substantially ahead of all the major indexes!**

The S&P 500 was up 0.93% year-to-date as of market close on Friday and our non-401(k) equity models were up from 2.2% to 3.5% !

For the period of time since 9/30/06, they are up from 6.77% to 12.10%. The S&P 500 for that period is up only 7.63% including dividends. I attribute our good returns to enhancements to the process that has worked so well for us over the last few years.

### What is Happening in the Market?

The Dow and the S&P 500, which were very strong last year are trailing the Nasdaq. This is understandable when you consider the fact that both are loaded with energy companies. Oil broke below \$51.00 a barrel to a new 19-month low today.

Crude oil trading below \$51 a barrel is a level not seen since May 2005. The commodity has fallen more than 16% this year in a sell-off triggered by a historically warm winter in the Northern United States and sustained by large funds taking short positions in the market, or bets that prices will fall. Oil is down 38% since last July.

Energy stocks are dragging down the Dow & the S&P 500 and many investors have sold energy and are reinvesting in the latest "What's Hot Now" thing - Nasdaq stocks. Tech stocks have benefited from switching out of oil and gas as the oil price continues to tumble. This is normal sector rotation and explains the Nasdaq's better relative performance.

Commodity prices are down significantly for the year and with them Emerging Markets, which have dropped 5% since the first of the year. One reason (among oth-

ers) is that the dollar has strengthened over 3% in the last 5 weeks.

The Dollar, pounded last year, has a lot of reasons to go lower but has gained some strength because of surprisingly strong economic data indicating that no recession looms in the foreseeable future and an equally surprising narrow US trade deficit.

In the last three months, the US trade gap has narrowed 15%. This indicates that last years US slowdown has taken its toll on our appetite for foreign goods and the lower dollar has made our products more competitive to foreign purchasers.

With a strengthening US economy, we look for a rebound of some type in commodity prices. Our Sector/Cycle rotation models indicate the same.

### Our Outlook?

The media is filled with mixed signals and reading between the lines has become somewhat of an art. The Financial Times reports that "Trading patterns across almost all asset classes [in 2007] has been characterized by a drop in risk appetite, observable as pressure on commodity prices, emerging market equities and currencies and FX carry trades."

At the same time, it was reported last week that the mortgage applications index shot up 16.6% in the week ending January 5. Refinancing applications jumped 17.3% and applications for buying a home gained 16.2% to the highest level in nearly a year. This is good news - which when combined with the bad news outlined in the prior paragraph and the strengthening dollar - tells me that the US markets have significant support.

We will have the normal cycling up and down and perhaps even a correction (defined as a 10% pullback) during the first quarter - but as we have been predicting for a number of newsletters, the US economy is too strong to fall into recession. We are going to have a "soft landing". That means that the risk of a major market pullback (I mean 20% to 30%) is unlikely.

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**DATED MATERIAL - CURRENT MARKET REPORT**

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**DXMTX**

The new mutual fund we manage DXMTX - Direxion Macro Trends Fund - opened last Wednesday and had three nice up days last week. You can't buy this fund directly as it is exclusively for our clients and the clients of Portfolio Strategies, Inc., another Registered Investment Advisor whose clients we manage money for. However, you can track it on Yahoo or any of the major investment reporting web sites. We will begin moving clients to it as soon as Schwab adds it to their trading platform, which we anticipate will be in the next month.

**Retirement Planning**

We now offer a simple yet extensive retirement planning process - free of charge - to clients and non-clients. Contact James Salter in our office at (713) 993-0949 ext. 101 or at [James@MLKerns.com](mailto:James@MLKerns.com).

As we have told many of our new clients, we think you will be rewarded for having us as your investment manager. Our performance over the last few years has significantly outperformed the indexes and (in spite of weak 2nd and 3rd quarters last year) that record remains in tact. We anticipate our enhanced modeling will continue the strong gains that we have enjoyed in this new year.

Lane Kerns  
Ted Cackowski, J.D., PhD

For copies of prior newsletters go to our home page at <http://www.MLKerns.com> and click on 'Market Outlook'.

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