MLK CAPITAL MANAGEMENT, INC.

ADVICE ON THE MARKET

January 3, 2007

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

Re: Another Strong Year
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Another Strong Year

2006 was an overall strong year but not without its bumps and the usual “Head-Fakes” that make managing money a challenging endeavor. A wave of global liquidity helped spur world markets higher in 2006 with gains for equities, bonds, commodities, and property. Alongside the liquidity came a remarkable fall in volatility. The biggest disruption in this benign environment came in May and June, when global equity markets suffered a sharp selloff, as inflation fears and growth fears and a temporary reduction of world liquidity by Japan appeared and risk aversion returned.

But the turbulence proved to be a “Head-Fake” correction and not a switch from a bull to a bear market. We became very conservative. Once the Fed stopped raising interest rates in August, oil prices subsided from their highs and geopolitical concerns subsided, markets raced ahead again. In hindsight, that is all very clear. In the heat of battle it was not so clear that one would have benefited from throwing caution to the wind by being fully invested with no risk management.

As a result, according to the Wall Street Journal, “the average US growth fund returned about 8.7% during 2006 ….. and only 19% of all actively managed funds – those with managers whose job it is to pick winning stocks, rather than passively track an index – in the US diversified-stock-fund-category, beat the S&P 500 index this year…” “… strong performers this year delivered their returns with a heavy dose of volatility.”

To quote the Financial Times, “This year, the passive investment philosophy – buy a bunch of blue chips and hang onto them - has worked better than almost any strategy that did not involve excessive risk. So active managers have failed to beat the index.” “None of that means that active managers have suddenly forgotten how to do their job.”

While we have consistently and significantly outperformed the market over the prior five years 2006 was less than inspiring for some of our accounts. We had strong first and fourth quarters but trailed the market during the second and third quarters due to our disbelief that the rally would persist. In any event, the upshot is that by adhering to a investment selection and hedging approach that has achieved strong returns with reasonable risk over the long-term, our efforts achieved mediocre returns during the first part of the rally that started in June.

Our New Mutual Fund

We are constantly working at becoming better. We have added new staff this year and invested heavily in analytical and trading systems to handle our growing client base and multitude of trading platforms for which we have been asked to manage money.

In a successful attempt to reduce volatility, we have substantially increased our trading this year. That has created a lot of paper flow between us, our clients, and Schwab.

Additionally, we have stopped trading many of the fund families that have served us well over the last few years because they have added holding periods and termination penalties.

To solve some of these new problems, reduce costs to our clients, and improve our range of investment choices, we will be managing our own mutual fund which will be able to invest in almost anything except other mutual funds. The fact that we will not invest in other mutual funds will take that layer of cost out of our client's portfolios.

In the past we have tried to restrict ourselves to trading only investments that have no trading fees because to purchase one stock in over 400 accounts meant that 400 of our clients paid a separate trading fee. For larger accounts that might not have been a problem but it would have decreased performance across the board. Now, we can have hundreds of clients in our mutual fund and pay a single trading fee for each stock we buy – thus reducing costs substantially while expanding our investment choices. We will also be doing away with all margin expenses to individual Aggressive accounts since we will have leveraging capabilities within the fund. The fund will not be open to the public and will only be available to our clients – although it will be tracked by Morningstar.

We are very excited about getting the new fund off the ground. It should launch sometime this month and hopefully be added to the Schwab (and other) platforms very quickly. It will be one of the Direxion family of funds and will be called the PSI Macro Trends Fund. It will essentially replace our current Aggressive account model and probably hold all our aggressive accounts. Other models will have portions of their assets invested in it – in a manner which manages risk to a lower level Aggressive. We are hopeful that additional funds will also follow to fully replace our Conservative, Moderate, and Stable models.

Managed Account Performance Verses Market Indices

	PERFORMANCE					RISK	
PERIOD ENDING 12/31/2006	One Month	Last 12 Months	3 Years Annualized	5 Years Annualized	Since 12/31/00 Annualized	3 Yr. Standard	5 Yr. Deviation
Equity							
Dow Jones Industrials	2.14%	19.1%	8.47%	6.83%	4.68%	7.25%	12.59%
NASDAQ	-0.68%	10.36%	6.71%	4.54%	-0.24%	13.10%	18.86%
S & P 500	1.4%	16.14%	10.50%	6.22%	2.97%	6.87%	12.38%
MLK Conservative - 401(k) Plans	1.7%	16.01%	13.41%	13.63%	10.33%	9.01%	8.20%
MLK Conservative Growth	1.29%	4.46%	11.31%	12.37%	9.30%	9.22%	8.35%
MLK Cons. Growth Margin	0.55%	0.82%	10.96%	N/A	N/A	13.00%	N/A
MLK Moderate - 401(k) Plans	1.17%	16.9%	13.42%	12.46%	9.15%	10.66%	9.55%
MLK Moderate Growth	1.15%	6.05%	11.71%	11.44%	8.32%	11.41%	10.43%
MLK Moderate Growth Margin	0.85%	4.22%	11.96%	N/A	N/A	13.80%	N/A
MLK Aggressive - 401(k) Plans	0.84%	22.45%	17.63%	13.88%	10.96%	10.91%	10.38%
MLK Aggressive Growth	1.32%	6.57%	14.29%	11.93%	9.37%	11.69%	10.83%
MLK Aggressive Growth Margin	-0.25%	0.76%	12.82%	N/A	N/A	14.72%	N/A
INCOME							
LB 1-3 Yr. Govt. Bond	-0.65%	1.24%	1.43%	2.45%	2.96%	1.22%	1.52%
3 Month T-bill	0.47%	5.05%	3.27%	2.5%	2.48%	0.44%	0.44%
MLK Stable Value (Non-401(k))	0.97%	8.44%	6.90%	5.82%	5.11%	3.37%	3.00%
MLK Stable Value 401(k)	-0.05%	4.86%	6.20%	5.41%	4.77%	3.25%	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.

Market Outlook

Short-Term – Economic data continues to show surprising strength and consumers remain upbeat. Consumer confidence rose in December and other gauges of economic health also improved. That said, the market is probably extended on a short-term basis and could continue to experience some softness that began in early December.

Long-term – The thinking among investors is that the economy will achieve a soft landing as the economy slows. Core inflation will be dampened without delivering a substantial hit to corporate earnings growth. In that environment, the market should grow at about the rate of corporate earnings growth. Surprisingly, the P/E Ratio (Price Earnings Ratio) of the S&P 500 has returned to its long term average and is no longer over-inflated. We could even get some P/E expansion – which means that the market could grow slightly faster than corporate earnings in 2007.

The risks to corporate profit growth come from two main areas.

1. If inflation does not subside and the Fed has to leave rates where they are or even raise them this year, corporate profits will fall and the market with it. One thing that increases the possibility of more inflation is the falling dollar. Many people do not know that the dollar has fallen dramatically against most major currencies in the last year. Although there has been as much a fall against most European currencies, it has fallen 6% against the Chinese Yuan in the last 18 months. That means that all of the "Made in China" items we are all buying are costing 6% more to import and eventually Wal-mart will have to pass that through to buyers. Higher inflation equals higher Fed interest rates equals lower corporate profits equals weaker stock market.
2. The worldwide supply of liquidity will remain strong as long as the world's economies remain strong and want to save and invest. If Japan's economy strengthens more, they will decrease the flood of extra cash they have dumped into their economy and that will lessen liquidity worldwide.

A New Service

Last month we mentioned that we have a free retirement planning service for our non-401(k) clients as well as 401(k) participants. After a couple of clients had asked us time and time again to go over their "retirement picture," we decided to begin offering this service. We will analyze your current assets and future contributions towards retirement and help you determine your probability of enjoying the retirement you are hoping for. Keyla and James in our office would be delighted to meet with any clients who wish to take advantage of this free service. Contact either of them at our office to setup an appointment. On a personal note, I have found this process to be invaluable and very eye-opening to your chances for a comfortable retirement. I strongly suggest you go through the process.

Current Portfolio Holdings

We are currently fully invested. Today we liquidated holdings to take taxable earnings we did not want to recognize in 2006. That money has been reinvested. We have holdings in several sectors that are in a positive part of their cycle and an uptrend.

Tip - The smartest thing people can do is maximize their 401(k), IRA and other tax-favored retirement accounts. The greatest wealth building tool available is the 401(k) account and in 2007, the maximum contribution is rising. It will be $15,500 up from $15,000 in 2006. For investors 50 and older it jumps to $20,500.

We wish you a happy, healthy and prosperous New Year!

Lane Kerns
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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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