



MLK Capital Management, Inc.

Mid-Month Market Report

November 15, 2007

Uncertainty Creates Opportunity

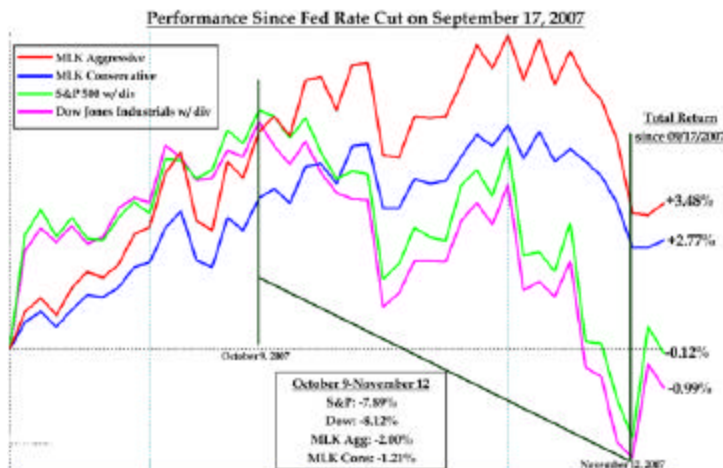
Each morning I read several financial newspapers and investment research reports. This morning, I thought the Financial Times captured the current mood with the following: “Uncertainty remained the key theme of the financial markets yesterday, and Wall Street suffered yet another bout of selling in the last hour of trade. The most outstanding characteristic of markets at this moment is fear....We are seeing a lot of late day selloffs lately.”

This is a hard environment in which to manage money but the process still evolves around the answer to one simple basic question - Is the market going up, down or sideways?

Investors Business Daily repeatedly says that three out of four stocks follow the market whether it is going up or down. Even good stocks go down when the market is going down and weak stocks go up when the market is going up.

Much of our effort is directed at answering that question on a daily basis. When the market goes up one day and down the next, that answer becomes obscured and fear and uncertainty creeps into the markets. When that happens we have to look at the overall trend.

When the Fed lowered interest rates on September 17th, an uptrend started and we jumped on board and quickly begin outperforming the market. Then, on October 9th, the S&P 500 and the Dow peaked and began trending down. As usual, it was not obvious until after the fact that the 9th was a top. We adjusted very quickly to the new world and adopted a defensive stance and have succeeded in protecting most of the gains we had accumulated.



As you can see in the chart above, from September 17th through last night, the S&P 500 and the Dow are down a net of 0.12% and 0.99% respectively. Our Aggressive and Conservative models are

up 3.48% and 2.77% respectively over the same period.

Another significant point illustrated by the chart is our relative performance from October 9th, when the market topped, and November 12th, when it bottomed. The S&P 500 and the Dow were down 7.89% and 8.12%. Aggressive was down only 2.00% and Conservative only 1.21%. We were up much more than we were down during this period - unlike the indexes. As our clients know, we are very active traders. Being active clearly pays off in times like these.

What We Think About the Short-Term Market Outlook

When I refer to the market bottom on the 12th, I do not mean to imply that I think that is *THE* bottom. We could very well continue downward on a short-term basis. The market is demonstrating weakness and we have adjusted our holdings to protect capital.

A pattern that has developed over the last few days is that indexes open higher but close lower as sellers come out in droves in the final minutes of trading. That's typical of a weak or bear market.

In a strong market the opposite happens: Stocks tend to open weakly and close near their intra-day highs.

Another characteristic of a weak market is that it reacts poorly to good news. That has been happening. When bad news doesn't send the market down, we will know the market will be at or very near a bottom. We will also miss out on the first day or two of gains like we did in the 36 hours following the Fed rate cut. But as you can see from the chart above, we have more than made up for it.

Market Outlook - Longer Term

The world markets are still very strong - but weakening. There is a great deal of uncertainty created by weakening macro-economic conditions, higher energy prices and continuing credit concerns.

The US seems to have slowed first and Europe is beginning to show signs of slowing. China, on the other hand, may slow but only from white-hot to red-hot! While there may be a correction in the Chinese market, we remain very bullish for the long run. When we lightened our holdings last week, we retained half of our China holdings.

Inflation fears have moderated some but have not disappeared. This morning's US Consumer Price Index for last month showed price escalation above what the Fed considers desirable. However, much of this was from escalating Energy and Food costs.

Inflation, while bad for the economy, is good for commodity
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prices and our largest holding is in commodities. The long-term outlook for energy demand, while slowing slightly because of higher prices, still continues to grow. Production will have to grow substantially to compensate the growing demand for prices to come down. While that is possible over the next few years, it is unlikely to happen. The world population continues to grow and this population requires more food. As a result, prices are escalating.

The dollar continues to weaken and that means that everything imported into the US is costing more. Prices for imports from china are increasing significantly each month. Who knows, it may become profitable to start manufacturing in the United States again someday.

Our Other Current Holdings

When I talk about our percentage of holdings, I am referring to our Aggressive model. The other equity models will mostly hold the same things but in lower percentages and with more cash, bonds or less volatile companions.

We have trimmed our holding so that we are currently only 17% invested with 83% in cash. We currently hold commodities and China.

I said in the opening title that “Uncertainty Creates Opportunity.” At the bottom of this market pullback, stocks will be on sale for those who did not remain invested during the downturn. We will make some good money on the ensuing rally out of the bottom when we reinvest our cash.

Lane Kerns

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