



# MLK Capital Management, Inc. Mid-Month Market Report

March 17, 2008

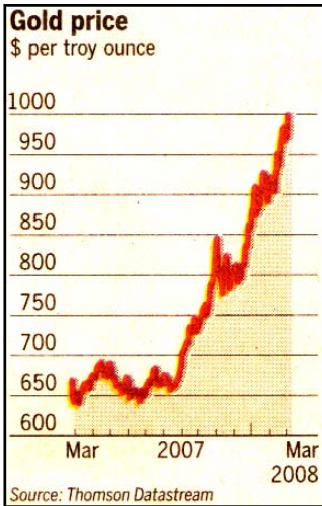
**Buy and Hope Investing  
The Alarms are Sounding  
We are Doing Well**

### Buy-and-Hope Investing

Any type of party inevitably presents the opportunity to meet new people. A St. Patrick's Day party Billie and I attended this weekend was no exception. The next inevitability is the question: What do you do? When I answered - "I manage investments" - I was surprised to hear again a comment that was quite common in the 2000-2003 market decline: "I just don't open my brokerage statement anymore!"

Buy-and-Hold investing should be renamed Buy-and-Hope investing and many people's hopes are going to be shipwrecked upon the rocks of financial neglect.

If we are in a building when the fire alarm goes off, we are concerned, but usually not overly alarmed, because we know where the fire escapes are and we can get out of the building. However, if we are touring a nuclear facility and an alarm goes off, that is something to get truly concerned about because, if things go really wrong, just getting outside the building does not make you any safer!



The US and world financial communities are sounding a nuclear alarm. The good news is that we have a very fast helicopter waiting outside the nuclear plant.

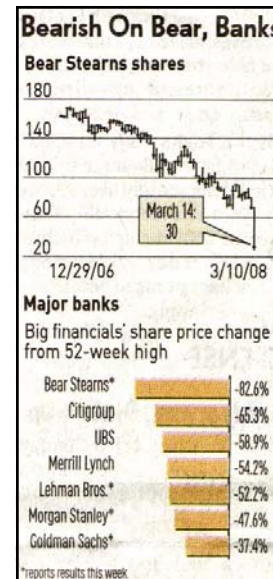
My objective in this letter is to get everyone to turn up our financial hearing aids so that we can hear and understand what is happening.

Some people have and will continue to get burned - while others will step back, watch from a distance as the carnage continues, and then get rich in the salvage business. As you will read, there are ways to protect your finances and profit from what is happening and what could happen.

### The Alarms are sounding

I have included two charts. One of the price of Bear Stearns and other banking stocks since the first of the year and another showing the price of gold. Before I comment on the charts, let's recap what has happened this week.

There is a massive credit squeeze in progress. Early in the week three major hedge funds were forced to close down or suspend investor withdrawals. They were a \$12 billion dollar NY hedge fund, an \$870 million Amsterdam Hedge fund and a Colorado based hedge fund specializing in Municipal Bonds which had shown an 80% loss!



On Tuesday the Fed stepped in with a \$200 billion dollar rescue package and was joined by other foreign banks around the world. This caused the market at first to rise and then to fall sharply because it was one of the alarms going off that the problem in the financial markets is huge!

On Wednesday, Standard and Poor's released a statement that "in their opinion" the overall write downs from credit losses worldwide would be much less than previously estimated. (Perhaps the fire was not so bad after all and the Fed's firefighters had it under control). That caused the market to rally over 400 points.

On Thursday, the prestigious Carlyle group announced that its \$22 billion dollar mortgaged-backed hedge fund had failed less than eight months after forming the heavily leveraged fund. This fund and all of the ones mentioned above were highly leveraged (they depended upon a lot of borrowed money) and the ability to obtain previously easy-to-borrow money was drying up.

In a period of only 24 hours on Thursday Bear Stearns, the fifth largest investment bank in America (shown in the banking chart) started to fail and had to be bailed out by the Fed. That move marked a dramatic extension of the Fed's role as lender of last resort for the financial system and underscores the extreme stresses that the credit crises has imposed on the financial system.

A Fed official said "that the central bank had acted because of the systemic risks involved in the potential failure of the fifth biggest investment bank at a time when the markets were extremely fragile." You don't even need that financial hearing aid for this alarm to get your attention!

The credit markets have sold off savagely and banks reacted to their losses by calling in loans - which in turn have created more losses. A potential death-spiral. The good news is that the Fed sees the problems and is determined to rescue our financial system. I think they can and will do it. However, all of this stress

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## DATED MATERIAL - CURRENT MARKET REPORT

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*continued from page 1*

combined with a US economy in recession has caused the US dollar to continue to lose value rapidly. Global investors are pulling money from the US. This is one of the reasons why commodity prices (most of which are priced in dollars) are going up in price, including oil. It takes more of these weaker dollars to buy a barrel of oil.

### We are Doing Well

From looking at the two charts above, one might think that if there were a way to profit from falling bank stocks and the falling stock markets they are pulling down, while at the same time investing in oil and commodities, this could be a very profitable combination. That is exactly what we are doing! We think this approach is better than retreating to cash or Money Market funds because the interest paid by Money Market funds is now less than the rate of inflation. We also think this is a better approach than investing in bonds. Even the Shearson Treasury Bond Index has fallen 2.52% so far this month.

Speaking of inflation, it is creeping up worldwide. This is causing our commodity investments to rise in price while other investments are falling. We know that this party will come to an end at some point and when that happens we will adjust to that new reality. There will be volatility, but the basic strength of our approach should last for a while. Our goal - as always - is to hold our money together - not take any big losses - hopefully make a little money while everyone else is going up in flames. In this way, we have our full nest egg to invest when the market turns around - as it always does - eventually.

Leprechauns are said to have a pot of gold hidden somewhere. So far this month the price of gold has reached a record \$1,000 per ounce, crude oil has hit \$111.00 per barrel and the dollar has fallen to be worth only 100 Japanese yen. May you have the luck of the Irish and be Long Gold & Oil and Short the dollar.

Lane Kerns

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