

For the quarter ending September 30, 2009

October 22, 2009

The Market Nobody Trusts

Who among us really takes this 60% rally in equity prices seriously?

Certainly not the millions of investors who fled to insured investment products, CDs, and money market funds over the last 12 months. It now amounts to \$3.5 trillion dollars on the sidelines.

Yet the stock market is finding it is really difficult to sustain any meaningful sell-off. Some of the smarter skeptics are quick to point out that stocks haven't vaulted this high at this kind of six-month breakneck pace since 1933.

What is more remarkable is the growing number of observers who are increasingly convinced that the rebound is for real.

We could produce reams of paper as to why many believe the market is for real, and many more people who believe it will collapse because the economy cannot support current stock market valuations. And of course, no red flag is causing more concerns these days than the massive increase in government spending and the federal budget deficit. It remains the elephant in the living room.

So what do you do as an investor? Answer: keep one eye on the road ahead, and one on the rear view mirror. As we've said before, forecasting market behavior is dangerous, especially with regard to the future. However inquiring minds can't help but ponder where events are headed. As such, our comments should be viewed to lie more in the realms of entertainment than accurate prognostication. Having said that, "where will the market go from here?"

We think the stage is being set for a very strong November-December year end rally. Our target is 1,200 to 1,250 for the S&P 500 index. Currently, it is around 1,100. This would represent a gain of 33% for 2009, and a gain of

77% from the March 9th low close. We believe, however, 2009's stock market performance will exceed the gain of next year.

During the next four to five years there may be two or three cyclical bull and bear markets much like the 1974-1982 period. We think it is now unlikely that the market lows of March 9, 2009 will be violated.

As an investor, the 1990s were a buy-and-hold decade, but over the last 10 years the buy and hold markets have disappointed people. Because the market conditions have changed the way people should now invest, we believe everyone's "buy and hold" strategy should now become "buy and monitor".

Fortunately, people are now beginning to recognize that it is more necessary than ever to incorporate active strategies in light of last year's market meltdown. And perhaps their performance will now improve.

We at Lawrence A. Krause & Associates have long practiced tactical-investing strategies. In this market there is, and has been a greater need than ever for active management. Because of this unique strategy, it is why most of our clients were 70% to 100% in cash months before last year's severe market decline. It sets us apart from at least 90% of all other advisors. And we will continue to seek alternative as well as conservative dividend paying investments in order to both attempt to protect and make money for you.

Yes, we are actively managing portfolios for the future, but also mindful as to how quickly equities can decline.

Sincerely,

LAWRENCE A. KRAUSE & ASSOCIATES, INC.