



# K E R N S

## CAPITAL MANAGEMENT, INC.

**Kerns Capital Management  
Market Report**

**October 15, 2009**

Clients and Friends,

The S&P 500, after finishing its second best quarterly performance of the decade, started October 1st with a 2.5% down day. A down day on the first day of a new quarter is not uncommon.

The market then proceeded to climb 6% through last night.

### **The Rally Continues!**



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### The Rally Continues!

The market has the story straight. The world is recovering, led by commodity exporters; equities are still in the "sweet spot" of low rates; and the concern for the future is inflation, not deflation.

While the concern over deflation has subsided due to global economic signs of recovery, fears of inflation are not high enough to cause the Fed to raise interest rates anytime soon. This is a green light for a stock market fueled by massive amounts of government cash being dumped into the economy.

The Bulls have been able to find plenty of confirmation. Third quarter earnings announcements from corporate America have been far in excess of market predictions. Of the 20 companies in the S&P 500 that had reported through last night, 18 surprised to the upside. Half of those also surprised with a growth in sales - not just bottom line earnings! Intel and JPMorgan Chase are only the latest examples.

**Are You Invested in the Market or the Economy?**

Earnings growth is what rallies are made of. This is happening regardless of what the economy is doing. We invest in stocks - not the economy. I encourage you to review our new [Fund Fact Sheet](#), including the section entitled [Portfolio Fundamentals](#) for the earnings and sales growth for the fund's holdings.

There is more good news:

- In China, imports of iron reached a new all-time record in August, which indicates strong economic growth.
- According to the Financial Times, on a broadly defined basis, the Chinese money supply is growing at an annual rate of 29%, which will provide massive stimulus for their economy and ultimately others.
- The International Monetary Fund sounded another positive note a few days ago when it upgraded its global economic forecasts for the first time in more than two years. Global growth means other countries have money to buy products and services from American workers.

The trip along the road to economic recovery in the United States is well under way. It has not and will not be a road without bumps or turns. The journey may take several years. The thing to keep foremost in our minds is that as long as there is progress, the markets will advance.

## A Correction Is Due

I said a correction, not a bear market. We still believe that the market will finish the year higher. However, a correction would help put a foundation for a longer rally in place. Do not be surprised by 5-10% pullback while the uptrend continues.

## How Are We Doing?

We are off to a great start for October and the past year has been an incredible demonstration of how our approach to investing can add to your wealth. The following chart for the one-year period ending last night shows our Aggressive and Conservative models compared to the S&P 500.



Our Aggressive model has risen almost three times as much as the S&P 500 Composite Index - Conservative is almost double. Much of the advantage was achieved through risk management which prevented our clients from taking the large market losses that occurred between October and the March bottom. We've since been able to capture much of the market's climb.

Note: For 401(k) plans without self-directed brokerage accounts, please see your Plan's Investment Performance Summary for actual performance.

## KCM Macro Trends Fund

Our **KCM Macro Trends Fund** (KCMTX) continues to grow!

For more information about the Fund, including its objectives, strategies and performance, please visit our website at [www.KernsCapital.com](http://www.KernsCapital.com); or click on the following direct links: [Fund Fact Sheet](#) (FINRA reviewed) or [KCM Macro Trends Fund](#).

The Fund is open exclusively to our Clients and Investment Advisors (for their clients) via Fidelity, Charles Schwab, TD Ameritrade, Pershing, Southwest Securities and Trust Company of America.

The KCM Aggressive Portfolio (non-401k) is invested 100% in KCMTX.

## In Closing

We want to thank those of you that have called or written expressing your appreciation and satisfaction in the way we have handled your investments. What we do is not just for the money we earn - it is a passion to do the best we can.

Thank you,

Lane Kerns

### Important Notice & Disclosures

**Performance data is historical.** Past performance does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

**Kerns Capital Management, Inc. ("KCM") performance figures** represent a composite of all individual portfolios managed in accordance with the investment category, are after the deduction of KCM's actual management fee, and include reinvestment of dividends and earnings. The composites contain accounts structured with mutual funds that are managed with a view toward capital appreciation. Standard Deviation and Alpha are calculated monthly and then annualized to be consistent with Morningstar®.

**Mutual Fund investing involves risk including possible loss of principal.** Investors should carefully consider the investment objectives, risks, charges and expenses of the **KCM Macro Trends Fund**. The Fund may invest in small, less well-known companies, which may be subject to more erratic market movements than large-cap stocks; foreign securities, which are subject to currency fluctuations and political uncertainty; and derivative securities, which may carry market, credit, and liquidity risks. The Fund may also engage in short selling activities, which are more risky than "long" positions because the potential loss on a short sell is unlimited. These risks may result in greater share price volatility. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 1-877-275-5599. The [Prospectus](#) should be read carefully before investing. The KCM Macro Trends Fund is distributed by Northern Lights Distributors, LLC member FINRA/SIPC.

**The S&P 500 Index** is an unmanaged composite of 500 common stocks. This index is widely used by professional investors as a performance benchmark. You cannot invest directly in an index. **The Dow Jones Industrial Average** is a price-weighted average of 30 of the largest and most widely held stocks traded on the New York Stock Exchange and the Nasdaq.