

KCM'S KOMMENTS—MONTHLY NEWSLETTER

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ECONOMIC & MARKET KOMPASS



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MARKETS & THE ECONOMY—

This past calendar year was one of the worst on record. For most of us, it was the worst year in our lifetime. Yet history has taught us that the future will get better. It always does and it will this time. The ability of governments to act in a concerted manner is better than it was in the 1930s. We simply know more and that should help the markets to recover faster than they did in the 1930s.

Here are the things we need to see happen in the first two to three quarters of 2009:

- Passage of a sound fiscal stimulus package by the US government
- Improved access to credit by both consumers and corporations
- Home prices stabilize
- The volume and magnitude of financial asset write-downs decline
- Sentiment changes toward the positive

STRATEGY—

In your portfolios KCM has kept more cash reserves than typical this past year. We don't expect that the markets will take off for another two quarters because the markets are discounters of future economic activity. They rise before economic news brightens. History shows that the stock market does "climb a wall of worry." So trust that we will keep to your investment policy with the exception of keeping more in cash reserves while we look for bargains and the noted items in the prior paragraph. We expect 2009 will become a good recovery year and we want your accounts to participate.

On balance we think 2009 could end up with double digit, positive total returns.

WE HAVE MOVED—

After almost nineteen years in downtown Philadelphia, we have moved to the suburbs. Our new location will allow us to dedicate additional resources to improve the results in your portfolios. Our new address and phone/fax are:

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