

Dear Friends and Clients,

The market has enjoyed one of the best January-February periods in two decades! The Nasdaq briefly crossed 3000 for the first time since December 2000. The Dow hit 13,000 for the first time since May 2008.

The economy continues to strengthen and corporate earnings continue to grow. These two things combined with historically low interest rates should continue to fuel the markets.

The market probably cannot maintain its current breakneck pace without a breather. Strong rallies take rests along the way.

In the "How Are We Doing?" section below, we show the performance of our models compared to the S&P 500 and the Nasdaq since the Nasdaq was last at the 3000 level.



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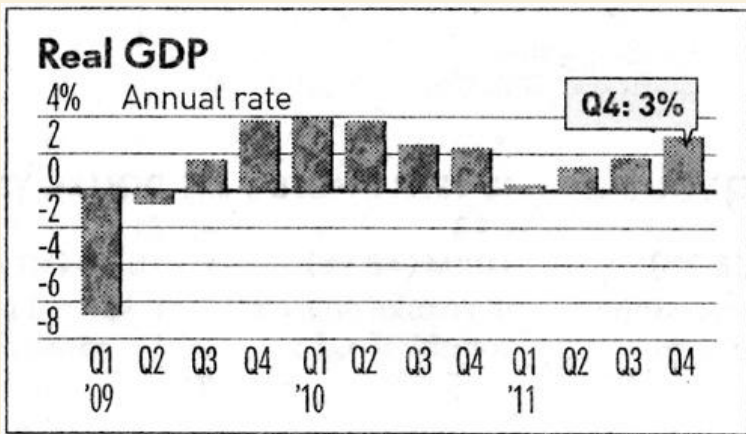
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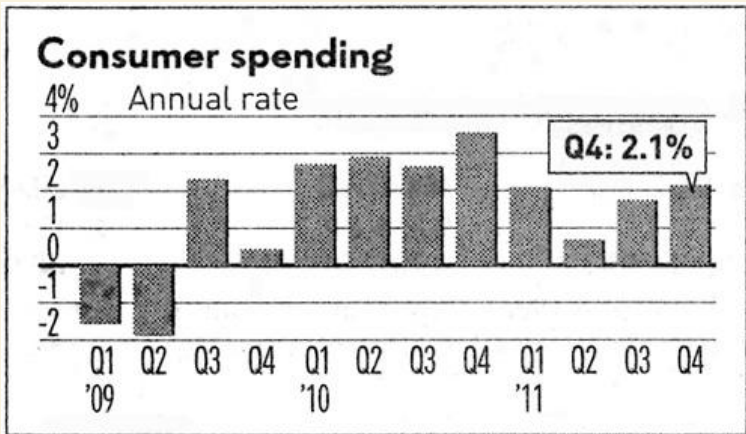
In our February 1 letter, the heading for this section read, "Is The U.S. Stock Market Spring-Loaded For An Advance?" The S&P 500 is up 8.6% year-to-date, the eighth best start to the year since 1928 according to Ned Davis Research. I guess the answer was yes!

Let's look at two of the big contributors to the continuing bull market. First, the Fed's Beigh Book report noted "... the U.S. Economy is improving".



Real Gross Domestic Product - the sum total of all goods and services produced in the US continues to strengthen with the fourth quarter rising to 3% growth.

This growth is producing jobs which in turn produce income and more growth.



Consumer spending followed the growth in the economy (or should I say helped cause it) and grew in the fourth quarter.

Not only is the consumer getting stronger but corporate earnings continue to grow. Earnings growth is followed by growth in stock prices.

The second big contributor to market growth is illustrated in the Bloomberg chart below, which shows earnings of the companies that make up the S&P 500. Note that 467 of the 500 companies have reported and the average growth in earnings has been 5.11%, with over two-thirds showing growth.

Season: **Current** | 01/09/12 - 04/09/12 | Periodicity: **Quarter**

EPS | Net Income | Sales | Source: **Equity Index** | Name: **SPX**

GICS

Sector	Reported/Total	Growth	Pos Grw	Neg Grw	Surprise	Pos Surp	Neg Surp
1) All Securities	467 / 500	5.11%	317	139	3.11%	316	145
2) > Energy	43 / 43	8.63%	27	14	-2.19%	22	20
3) > Materials	28 / 30	-18.41%	18	10	.39%	17	11
4) > Industrials	58 / 61	13.93%	48	9	7.04%	45	13
1) > Consumer Discretionary	66 / 80	7.81%	51	14	6.28%	52	13
4) > Consumer Staples	37 / 42	3.33%	29	7	.66%	27	10
7) > Health Care	52 / 52	5.12%	39	11	2.41%	35	16
4) > Financials	80 / 81	-6.72%	49	30	-2.65%	47	31
4) > Information Technology	63 / 71	14.69%	37	26	10.60%	51	11
10) > Telecommunication Ser	7 / 7	-23.56%	2	4	-5.57%	2	5
11) > Utilities	33 / 33	1.17%	17	14	.32%	18	15

Now let's take a look at the earnings growth of the stocks held in our Aggressive model. Of the 34 companies held in the model, 32 have reported an average growth in earnings of 25.54% - roughly 5 times the rate of the S&P 500. It is rewarding to know that our stock picking produced results this positive.

Season **Current** 01/09/12 - 04/09/12 Periodicity **Quarter**

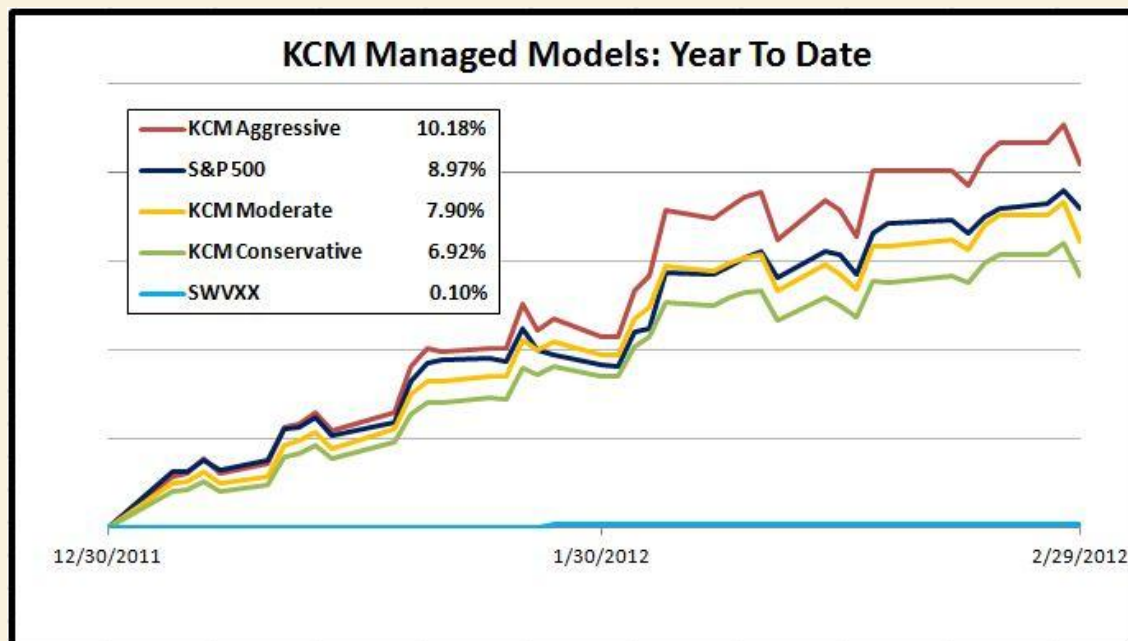
EPS Net Income Sales Source **Portfolio** Name

GICS

Sector	Reported/Total	Growth	Pos Grw	Neg Grw	Surprise	Pos Surp	Neg Surp
1) All Securities	32 / 34	25.54%	27	5	7.44%	24	7
2) > Energy	8 / 8	12.25%	7	1	-5.99%	4	4
3) > Materials	2 / 2	-9.57%	1	1	2.94%	2	0
4) > Industrials	5 / 5	29.15%	5	0	9.53%	5	0
5) > Consumer Discretionary	0 / 1		0	0		0	0
6) > Consumer Staples	1 / 1	32.06%	1	0	5.74%	1	0
7) > Health Care	4 / 4	41.52%	4	0	1.58%	2	1
8) > Financials	1 / 1	20.21%	1	0	1.25%	1	0
9) > Information Technology	10 / 11	30.56%	8	2	12.62%	9	1
10) > Telecommunication Ser	1 / 1	55.68%	0	1	-4.92%	0	1
11) > Utilities	0 / 0		0	0		0	0

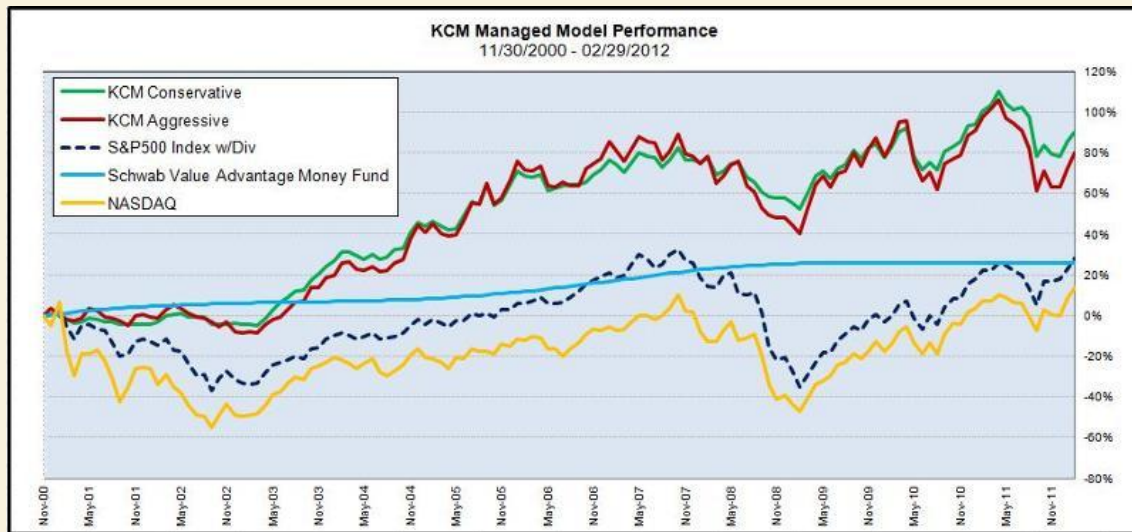
How Are We Doing?

It is one thing to project what we think the market will do and quite another thing to take full advantage of it. Below are two charts - the first showing short-term YTD model results. The second chart shows long-term results going back to December of 2000 - the last time the Nasdaq was at the 3000 level. Both of these charts show the composite performance of all of our clients that are in the respective models.



We included SWVXX (the flat blue line at the bottom of the chart) to show what your return would have been if you were in Schwab's highest yielding Money Market fund. This shows the cost of being out of the market.

The next chart goes back to when the Nasdaq was last at the 3000 level - over eleven years ago.



During the early part of this period, money market funds were paying a higher rate of interest than they are now. The accumulated money market return for the period was close to that of the S&P 500 (including dividends) and far ahead of the Nasdaq return. By contrast, the accumulated returns of our actively managed models far exceed the indexes and money market returns.

Once in a while we need to take a long view of performance to show that we are adding value for our clients. Last year was not a good year for active money managers. As we have pointed out previously, most under-performed the pure index funds last year due to the fact that **Fear Trumped Fundamentals.**

Managers were not rewarded last year for using fundamentally sound investment strategies. However, now that normalcy is returning to the markets, we have been rewarded year-to-date. Our clients have also been rewarded over the long run.

In Closing

Economic growth, low interest rates, and growing corporate earnings combined with good fundamental money management should leave us with larger portfolios by the end of the year. Barring some major geopolitical event, we think that is where we will end up.

One cannot look at a long-term chart of the market without recognizing that growth does not come in a straight line. There will be volatility, but the ingredients are in place for the market to end up higher over the year. While it would not be a surprise to see a softening over the summer, this is an election year. Election years are usually stronger years. We will see.

Don't forget to take some time and enjoy life.

Lane and Marty Kerns

KCM Macro Trends Fund

The [KCM Macro Trends Fund](#) is an out-growth of the model portfolios we have been managing for our clients for more than 16 years. The Fund is open only to our clients and Investment Advisors (for their clients). Shares are available through most custodians including Charles Schwab, Fidelity TD Ameritrade, LPL Financial, Pershing, Southwest Securities and Trust Company of America.

Mutual Fund investing involves risk including the possible loss of principal. For more information about the Fund, including its objectives, risks, strategies and expenses, please see the Prospectus which should be read carefully before investing.

Important Notice & Disclosures

Performance data reported above 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, unless otherwise described, 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 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.