



MLK Capital Management, Inc.

Mid-Month Market Report

Monday—December 15, 2004

Yesterday the S&P 500 finally got back up above 1200 - a level not seen since 7/05/01. Three years and five months just to break even. At least it has shown some life in the last few weeks.

During that period when the S&P 500 was just breaking even, our Conservative accounts grew an average of 37%. On a million dollars - that equals \$370,000 - compared to nothing if you were invested in a S&P 500 index fund. Moderate accounts were about the same and Aggressive models averaged 41%. All these numbers are after payment of all fees. Active management and risk management works.

Year-to-date to 12/14/04, major indexes are as follows:

NASDAQ is up 7.81%

Dow Jones Industrials is up 4.20%

S&P 500 with Dividends is up 10.01%

Treasury Bond Index up 8.31%

All of these have had significant increases over the last few weeks.

WHAT ARE THE DOMINANT FORCES IN THE MARKET RIGHT NOW?

I have talked in several prior letters about how we have benefited from the declining dollar. On December 3rd the dollar started showing strength and had five days in a row where it gained strength. This is after months of declines. Although it is too soon to tell whether the trend is changing from a weakening dollar to a strengthening one - our foreign holdings did not perform well during that period. In spite of that headwind, all models show gains for December.

As expected, the Fed raised interest rates for the 5th straight meeting. This was a non-event and the market continued higher due to the fact that the rates are still so low they are still stimulating the economy. Eventually, the economy will pick up enough steam that we will be-

gin to have inflation. At that point - but not until that point - will the Fed raise rates to a point that will slow down the economy. A neutral level for short-term interest rates is 1.5% to 2% plus the rate of inflation. With inflation running less than 3% that means that rates would have to be at some level above 4.5% to have a slowing effect on the economy.

The biggest surprise seems to be - in spite of a ballooning federal deficit and exploding balance of payments problem - long-term interest rates are still declining! The fact that this is happening is good for the economy and the stock market - but it is not supposed to happen according to the textbooks.

Apparently, our foreign trading partners (other nations) are continuing to reinvest their profits back into the USA. The flow of foreign money back into the USA to purchase our bonds is at such a high level, it is raising the price of bonds and causing interest rate to go lower.

The other possibility is that investors are expecting a weaker economy going forward, and are moving money from other investments to bonds. I prefer the foreign explanation to this one. I think we would be seeing a much weaker stock market if money was moving out of it.

If anyone has a better explanation for declining long-term interest rates - please e-mail or call and explain it to me. In the meantime, we will just take advantage of the friendly investment environment until it changes.

Inflation has had only a slight increase and still appears to be running at a desirable rate of 3% or less year over year. As the prices of oil, gold, aluminum and other commodities soared for most of the year, the stock market languished. It was only when commodities began to run out of steam toward the end of the year that stocks finally turned upward. Oil, the com-

continued on the next page

MLK Capital Management, Inc.

Galleria Financial Center

5075 Westheimer, Suite 1177

Houston, TX 77056

www.MLKerns.com

www.401k-Investment-Advice.com

Address Service Requested

DATED MATERIAL - CURRENT MARKET REPORT

continued from page 1

modity most closely linked to stocks, peaked in late October, and many other commodities followed it, peaking and then falling last month.

Industrial output has risen 4.2% vs. a year ago. This is a good rate but not a great rate. It seems to be edging higher. The comment from the Fed Board of Governors was - the economy “appears to be growing at a moderate pace, despite the earlier increase in energy prices, and labor-market conditions continue to improve gradually.”

I would like to share with you a quote from John Bogle—the founder of the Vanguard Group when describing a firm that he respected. “They focus on money management rather than marketing and on stewardship rather than salesmanship.” I felt like he was talking about us.

Right now - life is good! Live well.

Lane Kerns

MLK Capital Management, Inc.

a division of American Benefit Resources, Inc.

All information, data, and contents are obtained from sources believed to be correct, but reliability cannot be guaranteed. Past performance is no guarantee of future performance. Readers of these comments should not take action based on information contained. Comments could pertain to time periods or to trends which are not expected to persist, or could refer to actions not commensurate with other individuals' level of acceptable risk.