



MLK Capital Management, Inc.

Mid-Month Market Report

Thursday - December 15, 2005

FEAR AND GREED

The following is a quote from Monday's Wall Street Journal's Ahead of the Tape column. I thought this would be a good lead in for some points I want to make.

“Fear and Greed are supposed to be what drive the market, but as the year finishes up, it often seems like fear and more fear.”

In addition to investors' usual fear that the market will fall, there's the competing fear that they'll miss out on a year-end rally that sets them behind their peers. Among the many professional investors who are judged on their calendar-year performance, these concerns are particularly acute. Fall behind in the final month of the year, and that fat year-end bonus you expected can go on a crash diet.

Because the past couple of years have seen big year-end rallies, a lot of investors became conditioned to worry more about getting left out of the fun rather than getting left holding the bag. One factor behind stocks gains last month may have been that many investors stubbornly clung to their positions for fear of missing out on a big year-end move.

I have often said in the past that market tops occur when there is no one left to buy—because all of the buyers are fully invested. Question—If everyone is invested because they fear missing out on the year end rally - what is going to happen when the year-end rally is over?

After a great year in 2003, on January 26, 2004 the market peaked and the Nasdaq worked its way to a 18.63% loss on August 12th. It then had a great rally only to finish the year a total of 1% above its January high.

In 2004, the year end rally ended exactly on 12/31/04 and the Nasdaq then declined 12.07% into April. As of last night it is up a total of 4.01% for the year. The Dow and the S&P 500 showed the same patterns with slightly lower volatility.

I think you get the point. Even though the economy is very strong with employment strong, inflation seemingly under control and interest rates low - the market sometimes marches to a different drummer. As I always do - I have to come back

to the point that it doesn't do much good to catch a good market rally if all you are doing is digging out of a hole from the last market decline. That is why we tend to set points below which we are not willing to lose money. At those points we sell or hedge to protect ourselves. It doesn't always work perfectly - but it does work as you will see from the numbers below. But first

HOW DO YOU KNOW IF YOUR FUND MANAGER IS ANY GOOD?

The industry has a way of measuring how much value an investment manager adds (or takes away). It is called Alpha. Alpha is a way of calculating how much return a manager is getting for the risk that is being taken. The theory being that if your fund manager had a great year but he got it by shooting craps in Las Vegas (or high risk portions of the market), you may not want to have your money exposed to risk that high.

Another way of grasping the concept is to imagine that the S&P 500 made exactly zero for the year but your fund manager made 2% - while taking a similar amount of risk - the manager would have added 2% Alpha. So let's take a look at how the biggest US funds have done over the last few years compared to three of our managed models.

On 12/5/05 the WSJ did a piece on How The Large Funds Fared which looked at the twenty seven largest mutual funds. On page 2 we have taken sixteen of the largest mutual funds from their chart and added our Conservative, Moderate and Aggressive Models for comparison as well as a calculation of Alpha. These fund range in size from \$20 to \$68 billion dollars and can afford the best management available. Isn't it nice to know that you can too.

ON A PERSONAL NOTE

I am now eight days past my neck surgery and doing about the way the Neuro-surgeon said I would be doing - painfully slow but better each day. Thank you to all who have called or e-mailed.

By now clients should have received in the mail a letter indicating that our firm has a new owner. National Investment Managers, Inc., a public company, has purchased our parent company. For more information Google its symbol NIMV.OB.

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DATED MATERIAL - CURRENT MARKET REPORT*continued from page 1***COMPARISON OF MLK FUNDS WITH "HOW THE LARGEST FUNDS FARED"**

All numbers are as of 11/30/05.

	November	12 Months	3 Years	Alpha 3 Yr	St Dev 3 Yr	St Dev 5 Yr
MLK Conservative	1.37%	11.00%	17.73%	9.09%	8.89%	7.93%
Fidelity Contrafund	4.08%	17.72%	18.83%	8.15%	9.19%	10.75%
MLK Aggressive	1.71%	14.13%	17.62%	6.83%	11.33%	10.71%
Fidelity Low-Priced Stock	4.45%	10.97%	20.87%	6.47%	12.72%	14.15%
Dodge & Cox Stock	3.10%	11.76%	17.80%	5.18%	10.50%	13.77%
MLK Moderate	1.73%	12.53%	15.30%	5.06%	10.95%	10.51%
American Funds Inc;A	1.58%	5.18%	13.00%	4.57%	6.82%	8.56%
American Funds CWGI;A	3.58%	14.78%	21.71%	3.95%	10.08%	13.08%
American Funds CIB;A	1.41%	6.60%	13.93%	3.30%	6.64%	7.73%
American Funds Gro;A	4.65%	15.29%	15.38%	2.18%	11.38%	17.14%
American Funds EuroPacific;A	4.91%	19.78%	21.30%	1.84%	11.49%	14.13%
American Funds Balanced;A	2.25%	5.47%	10.24%	1.52%	6.88%	9.40%
American Funds ICA;A	2.89%	7.86%	12.13%	1.40%	8.81%	12.16%
American Funds Wsh;A	3.06%	6.08%	11.19%	0.16%	9.29%	12.32%
Vanguard Instl Indx;Inst	3.78%	8.45%	12.08%	-0.02%	10.02%	14.94%
SPDR Trust;1	3.76%	8.31%	11.93%	-0.12%	9.99%	14.90%
Vanguard 500 Index; Inv	3.76%	8.31%	11.94%	-0.14%	10.01%	14.94%
American Funds Nper;A	3.78%	11.74%	17.21%	-2.02%	11.93%	15.46%
Fidelity Magellan Fund	3.35%	7.61%	9.41%	-2.21%	9.86%	15.01%

Lane Kerns

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