



MLK Capital Management, Inc.

Mid-Month Market Report

February 15, 2008

The Economy is Slowing
Commodities are Booming
We are Doing Well

The Economy is Slowing

The themes that began appearing last August have now progressed to the point where we have much greater clarity and a better idea how to position our portfolios to deal with them.

I started writing almost a year ago that when the Fed starts trying to stimulate our slowing economy, they will, by doing so, fan the fires of inflation. I referred to the “Stagflation” of the 70’s when we had this problem. First let’s deal with the evidence of a slowing economy.

We all know the housing market is tough and that credit is becoming very hard to obtain, even for the most credit-worthy borrowers. With more than half the companies in the S&P 500 having reported their earnings for the fourth quarter, the headline numbers show a bleak 19.3% drop.

Even the Chairman of the Fed in his testimony before Congress yesterday used words like “sluggish” and “deteriorating” and gave a starkly pessimistic assessment of the nations economy and signaled that the Fed will cut interest rates further if needed.

Today, the February **Empire State Manufacturing Index** (which indicates how manufacturing companies in New York are doing) fell nearly 21 points to -11.72 from 9.03 in January. That was the lowest level for the **index** since it hit -16.47 in April 2003, though there was also a one-month negative reading in May 2005.

I could raise the level of boredom significantly with the stacks of statistics I have in my office - but I think you get the picture.

The global economy is also slowing slightly—but not nearly to the extent of the United States. This presents opportunities for making money, even with the US economy declining. Let me explain.

Commodities are Booming

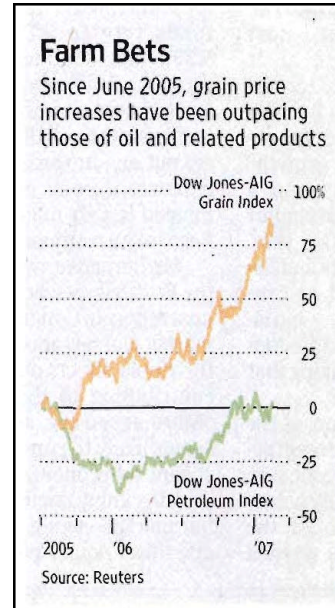
We are heavily weighted toward commodity investments. Over time this has to pay off in a big way!

Because the Fed and Congress are aggressively attempting to stimulate the economy in this election year, the fires of inflation are beginning to burn brighter worldwide.

Inflation is all about the price of goods. Mainly the prices of commodities like food, fuel and the metals and natural resources that go

into everything we use on a day-to-day basis. So, when you hear about the cost of things increasing, think about the commodity prices in your investment portfolio going up.

Look at the following chart. The Dow Jones –AIG Grain Index is up almost 100% since 2005. Farmers are smiling. Since 2006, the price of oil has risen steadily.



I remember buying a “less than fuel efficient” car in the 70’s when fuel prices were soaring. That was back when people really cared about the cost of gasoline and I got a few comments from people about buying gas for it. I just thought to myself that since we were heavily invested in oil, it was good news to me when the price of gasoline went up.

This country is going to have inflation and it is spreading worldwide. We have no choice but to go along for the ride. However, what we can do is make sure that our portfolios will

benefit from it - not suffer because of it.

Why is this happening? A few more statistics will shed some light on the issue and how to benefit from it.

1. China has become the world’s biggest consumer of coal, and the world’s second biggest consumer of oil. The price of coal is up 143% since January 2007. It’s demand for oil has increased 38% since 2003. Each 1% rise in GDP (gross domestic product) represents a 1% rise in oil consumption.
2. Both the International Monetary Fund and Goldman Sachs group forecast that China’s GDP will rise 10% this year while the US economy is slowing to zero growth. Which do you think will be a better investment this year: an investment in the US stock market or an investment in China and commodities such as oil, coal and the natural resources it is using to fuel its growth?
3. OPEC said two weeks ago that if the price of oil falls below \$70.00 a barrel, they will be spurred to reduce production to prop the price up.
4. In Brazil, accelerating food price inflation coupled with the fastest economic expansion since 2004 is creating both an investment opportunity in a fast growing country plus more demand for rising commodity prices. We are invested in both.

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MLK Capital Management, Inc.

Galleria Financial Center

5075 Westheimer, Suite 1177

Houston, TX 77056

www.MLKerns.com

www.401k-Investment-Advice.com

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5. Since Mid-August, New-York gold futures prices have risen more than 42%. Gold is an investment that offsets inflation and one of our funds is heavily invested in mining stocks.
6. GDP growth in India is slowing slightly from 9% last year to 8% this year. But remember, the US is close to zero.
7. While China, India and Brazil are trying to slow their economies to combat inflation, the US is trying to stimulate our economy by lowering interest rates and providing a stimulus package. Lowering our interest rates and creating spending in excess of our national income lowers the value of our dollar. A weaker dollar buys less - another way of saying that it will cost US consumers more dollars to buy commodities than it will for consumers in countries with stronger currencies.
8. We feel that we are uniquely positioned to grow our portfolios faster than the US market will grow. Having said that, we expect a great deal of volatility both in US and non-US investments. We expect that the US market has not reached its low for the year! We also feel that when it does, it will present us with an explosive rally into the latter part of the year. If a rally does not present itself, we will still have prevented significant losses to our client's portfolios. Our objective is to not take any significant losses and to capitalize on the opportunities described above.

We are Doing Well

For the month of February, through last night, all our equity portfolios are all up while the S&P 500 (including dividends) is down over 2%.

When times get rough in the market, I am reminded that people become less concerned about the return **on** their money and more concerned about the return **of** their money.

Lane Kerns

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