



MLK Capital Management, Inc.

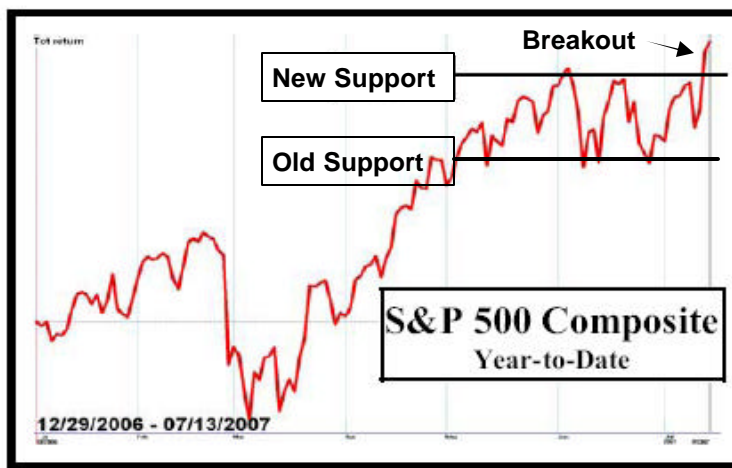
Mid-Month Market Report

Monday - July 16, 2007

A Great Month

Stocks ticked higher on Friday as the market wrapped up its second very strong week. For the month, the S&P 500 is up 3.33%.

Clients in our Aggressive model are up between 4.48% and 4.58%. Moderate clients are up 3.46% to 3.56% and Conservative clients are up approximately 2.81%!



The chart above shows the S&P 500 year-to-date. From roughly the first of June through last week, the market had entered a trading range between the Old Support and New Support lines in the chart. This pattern is a consolidation pattern - where the market has moved one way or the other very fast and needs to take a breather while waiting on new data before moving one way or the other again.

When the market enters one of these patterns, three things are significant:

1. The Market finds it hard to break down below the Old Support line and equally difficult to break out above the upper black line which was resistance.
2. If this pattern follows a strong uptrend (as this one has) it will normally (but not always) break out the top. **If it does, the uptrend usually continues. This is consistent with our outlook because of all the supporting factors I have been talking about over the last few months, .**
3. If it breaks out the bottom following a downtrend, the downtrend usually continues.

Over the last few months, we have read the market very accurately and our Aggressive account has now caught up with and surpassed the S&P 500 year-to-date. In our last several newslet-

ters, we have given (and updated) nine reasons why the market has been stronger than the normal summer market. I won't go through all nine here - just the ones that have changed.

1. Corporate earnings appear to be starting off this quarter much higher than expected!
2. After a quick run up to a 5.3% interest rate for the US 10 year Treasury bond, it has now pulled back to the 5.0 to 5.15% range. This pullback is extremely favorable for the stock market.
3. The markets had been expecting a rise in interest rates and it was already priced into the equity markets. When rates did not go any higher it set off the rally.
4. Any rate below 5.30% (some say 5.50%) will still allow robust economic growth in the US.
5. Inflation reports show that the Fed appears to have been successful in slowing US inflation to an acceptable level.
6. Additional reports this week show that economic growth in the US is rebounding strongly at a time when inflation seems to be under control.
7. Employment and wage growth are both strong - giving continuing spending power to US workers.

This combination of factors - robust growth, moderating inflation, interest rates that are still low by historical standards and full employment are the needed elements for a continuation of the Goldilocks economy, sustainable growth in corporate profits and a rising stock market!

Some of You Are Trying to Time The Market!

I found out this month that when I write about things in the newsletter about what we think are relevant economic factors, a couple of our clients are switching amongst our models.

One client went completely to cash upon reading my commentary about "Sell in May and Go Away". Since they went to cash on May 1st, the market has gone up over 5%! On a million dollar account that is \$50,000! Our models are up from 4.6% to 6.9% since May 1st.

People tend to lock onto things that support their preconceived ideas. If they had objectively focused on the rest of the newsletter and those since, they would have seen that I was firmly in the camp that this would not be a good strategy.

Although we do not consider ourselves "Market-Timers", we trade actively to stay invested in what is working. You are paying us to make those decisions. Second guessing can be hazardous to your wealth.

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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
Address Service Requested

DATED MATERIAL - CURRENT MARKET REPORT

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Our Current Holdings

In a sustained uptrend, it is best to stay invested. As many found out in the 90's, when the market is going up 9 out of 10 stocks go up with it. The key to beating it is to stay invested in the sectors of the world economy that are outperforming the Index we are trying to beat. We currently have holdings in Europe, Emerging Markets, Technology, Basic Materials, Energy, Oil Services, the NASDAQ, & Small Cap Growth. Some parts of an stock market index are always over performing and some are always underperforming.

A Personal Thought

Different market conditions require different investment management. In its simplest form, we need to determine if the market is going up, going down or going sideways (such as the period we just broke out of). We have worked hard at refining our processes to determine which of those three market conditions exist and then applying the proper investing approach fitting those current conditions. We don't always get it right - but over many years we have significantly beaten the market.

Enjoy what is left of the summer. Time passes quickly.

Lane Kerns

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