



MLK Capital Management, Inc. Mid-Month Market Report

Monday - October 16, 2006

What is Happening in the Market?

We find it very odd that the market was up in August, September and so far, in October. We do not remember another time when that has happened.

The important thing is that the market remains in an uptrend and we are capturing that uptrend. For October up through Friday the 13th, the S&P 500 with dividends is up 2.33%. Our models are all up - Aggressive models are up about 3.51%, Moderate 1.49% and Conservative 1.13%.

Why is There Such a Difference in the Performance of the Different Models?

This may be a good time to revisit the investment objectives of each of our models. There is a defined written investment objective for each **portfolio** which is signed by each client on the Investment Advisory Agreement. Those are:

Conservative Growth Portfolio - "The primary emphasis of the portfolio is volatility lower than the Standard & Poors 500 Index while maintaining the opportunity for some growth in capital. Little consideration is placed on income."

Moderate Growth Portfolio- "The primary emphasis of the portfolio is growth of capital with little emphasis placed on income.

Aggressive Growth Portfolio - "The primary emphasis of the portfolio is aggressive long-term growth of capital with a long-term objective of exceeding the return of the S&P 500 Index.

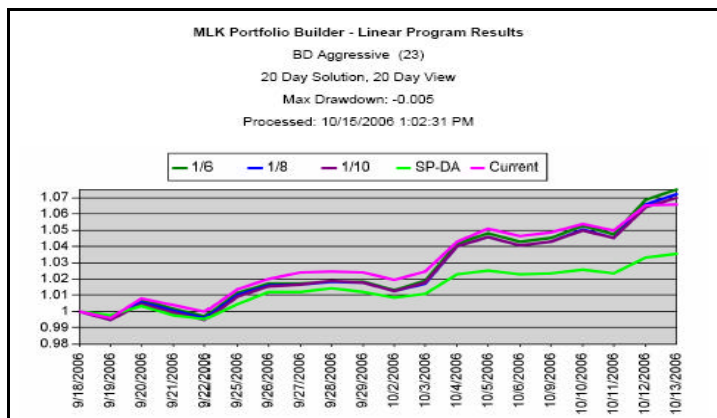
All our models also have as a primary objective - not losing any big money. Obviously the amount of loss or "drawdown" is less for Conservative than it is for Moderate and Moderate is less than Aggressive.

Although we never want to under-perform the S&P 500 with any of the models, we will opt for safety more quickly in the non-Aggressive models.

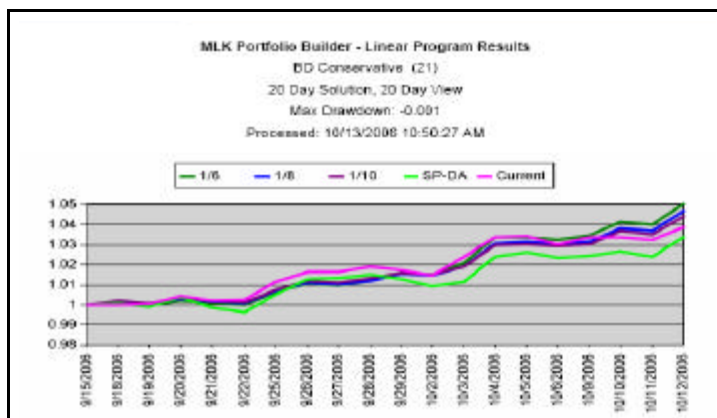
What Does our Current Portfolio Look Like?

Again this month we include a snapshot of the last 20 days performance for the Aggressive Model. We want to empha-

size that this is how our current portfolio would have performed if we had held it for the last 20 days - not how our actual portfolio has performed - although they are starting to look more similar.



The following graph shows the same thing for our Conservative Model. From just looking at these two graphs, it is not at first obvious that the return for the Aggressive Model for the 20 days is 7.19% with a maximum drawdown during that period of 0.96% while the return for the Conservative Model is only 4.71% with a drawdown of 0.21%.



We say ONLY 4.71% to emphasize that Conservative is not constructed to capture as much upside (or downside) as Aggressive. Both portfolios would have outperformed the S&P 500 over the last 20 days. It is just that the Aggressive model had slightly more risk and the Conservative considerably less risk than the S&P 500. The S&P 500 had a 3.52% return and a 0.77% drawdown.

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Our Outlook?

The US economy continues to be surprising with its strength. However, with no major correction at the end of this cycle, it will be difficult for the market to have the large gains that are typical of phases one and two of the typical economic cycle. We think being a nimble investor will be important in order to take advantage of strong global and sector moves. Our process allows us to do this while managing risks.

Performance

Since 2000, our models are up from 52.81% to 72.98% (after fees) while the S&P is up only 13.99% through 10/13/06. The Shearson Treasury Bond Index is only up 42.17%. Yes that's right, we have beaten the market since 2000 by 38.82% to 58.99%. *(These returns are not composite returns of all our clients like we report on the first of each month. They are however, representative client accounts that are invested like all accounts with the same objective.)* Imagine how much that means to our clients who are now about to enter retirement. We have accomplished this outstanding performance by not taking big risks and controlling our losses.

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MLK Capital Management, Inc.

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